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The 1935 Utility Legislation Throughout the States

NOT as harsh, in the opinion of the author, as might have been expected, in view of the hue and cry in Washington against the utilities—Government ownership and the PWA proposals—Connecticut's declaration of independence.

BY GEORGE E. DOYING

PERHAPS the state legislatures, of which forty-four held regular sessions in 1935, felt that the public utilities were undergoing sufficient harassment in Washington. Whether it was this or something else, the numerous sessions were remarkably free from subversive utility legislation. Listening to the hue and cry in Washington against the utilities, one might have been justified in anticipating a deluge of harsh laws in many states.

Not that there was any dearth of proposed legislation in most of the legislatures, much of it of a highly explosive character. One legislator in Massachusetts, for instance, introduced a bill to levy a tax of 40 per cent on the gross revenues of all public utility companies in the state. Another, at the instigation of Governor Olson of Minnesota, offered a bill for a $50,000,000 bond issue to put the state into the power business. The Minnesota house of representatives voted more than 2 to 1 against the proposal.

Nevertheless, the outstanding type of legislation which found favor in many states had to do, in one form or another, with the advancement of pub-

lic ownership. This was due, in large part, to encouragement given by the Roosevelt administration for the enactment of laws to ease the way for municipalities and other public agencies to engage in the utility business. Ostensibly, and to some extent actually, the motive here was to promote the Roosevelt public works program. It was desired also, however, by many Federal officials (probably including the President himself) to boost public ownership of utilities. The public ownership advocates, in Congress and out, naturally were not slow to make the most of this situation.

It is all the more surprising, therefore, that there was not an even greater amount of legislation designed to accomplish this purpose. The Federal Emergency Administration of Public Works (PWA) boasted of sending 500 drafts of bills to state legislatures—but only, mind you, when requested by governors. The requests from governors came after they had received a letter from President Roosevelt suggesting such procedure. The fact that the President held the string to the bag containing the $4,880,000,000 public works relief fund may not have had anything to do with the matter.

Not all of these 500 bills related to utilities. One of the several types of bills (there were about a dozen) was to authorize the creation of housing authorities, and another authorized cities to coöperate with housing authorities. A third had to do with highway bridges. Three bills related to bond issues—one of them being a revenue bond act. Another proposed to authorize political subdivisions to purchase or construct water supply, sewage and gas systems, and to issue bonds for the financing thereof.

Presumably on the theory that the states generally would enact most of these bills to create new agencies, another bill provided for a public works board to supervise the financing of those agencies. Alabama, however, was the only state which swallowed the whole lot, including the supervising board. The Alabama legislature also deprived the state public service commission of any jurisdiction over public utility operations when conducted by a Federal agency (meaning the TVA).

Four bills, in addition to the revenue bond act, particularly related to electric power, although in one case other services were included. These bills (and the states which enacted them into law) may be summarized briefly as follows:

REVENUE BONDS [1]

Authorizing political subdivisions to issue securities for public works projects for sale to or pledging with United States agencies, based on the earnings of income of such projects.

Alabama
California (vetoed)
Nebraska
North Carolina
Puerto Rico

Improvement Authorities

An act authorizing the incorporation of "improvement authorities" for the purpose of engaging in the rendition of water, sewage, telephone, gas, or electric service, and to issue bonds and provide payment thereof. (Such authorities to be co-terminus with the boundaries of municipalities or towns, or unincorporated areas containing 250 or more voters.)

Alabama
South Dakota

[1] Revenue bond acts already were in effect in the following states: Colorado, Illinois, Indiana, Kentucky, Michigan, Minnesota, Missouri, New York, North Dakota, Ohio, Pennsylvania, Texas, Virginia, Washington, Wisconsin.

Power Districts[2]

An act for the creation of power districts for the production, transmission, or distribution of electric energy and for the issuance of bonds by such districts. (Creation subject to approval of state public service commission.)

Alabama	Nebraska[3]	New Mexico
California	Nevada	South Dakota

Membership Corporations[4]

An act for the formation of nonprofit membership corporations for the purpose of encouraging rural electrification.

Alabama	North Carolina	Tennessee
Indiana[4]	North Dakota[4]	Vermont

State Rural Electrification Authority[4]

An act for the creation of a state rural electrification authority with power to issue bonds for the financing of activities pursuant to such act.

Alabama	New Mexico	South Carolina
Indiana[4]	North Carolina	Vermont
Montana	North Dakota[4]	

In some states these bills were not even introduced in the legislature after they had been received by the governor. In others they were the focal point of lively contests. The bills were referred to the attorneys general in Maryland and Michigan and in both instances the opinions held the bills to be unconstitutional.

IN Colorado a compromise bill was enacted in lieu of the several measures emanating from Washington. This act relates to the financing and acquisition of public works, including utilities, and provides that political subdivisions may borrow money, issue bonds, etc. However, the only change it makes in the law is to allow the legislative body of a political subdivision to do that which, under the old law, would require a vote of the electorate in the subdivision.

West Virginia probably is the only state with a revenue bond act (providing for the issuance of bonds on the sole security of revenues from the project) that does not include public utilities. This act's definition of the public works for which such bonds may be issued pointedly omits water, gas, electric, and telephone services.

The West Virginia legislature defeated a bill to establish a state power authority, while the Washington legislature provided for submission to the people in November, 1936, of a constitutional amendment authorizing the state to produce and distribute electric power at wholesale. Minnesota's action is noted above.

South Dakota created a state electric corporation with power to issue revenue bonds. The corporation is

[2] Power district acts have been in effect since 1931 in Oregon, Washington, and Wisconsin.

[3] Nebraska also had a power district act prior to 1935, when the act was slightly broadened.

[4] Indiana adopted a "Rural Electric Membership Corporation Act" which accomplishes purposes similar to those embraced in the bills for membership corporations and rural electrification authorities. North Dakota defeated those bills, but enacted one for coöperative nonprofit corporations, apparently for rural rehabilitation, to effectuate any program of a Federal, state, or other agency.

¶ *". . . the first half of 1935 saw the public utility executives of the country busily engaged in watching the progress of the many proposals which might vitally affect the properties under their supervision. This biennial turmoil was intensified this year by the unusual activity in the national legislative halls—but that is another story."*

authorized to render service to the inhabitants of the state and, by contract with any person, Federal agency, or municipality or by its own employees, to acquire, own, operate, maintain, and improve an electric system or systems.

THE Oregon legislature passed a bill to create a state power board to construct and operate electric transmission lines to handle power from the Federal project at Bonneville dam. Governor Charles H. Martin vetoed it on the ground that he thought the Federal government should provide the lines. Since then, a bill to that effect has been introduced in Congress and probably it will be up for action in 1936.

In Oklahoma, the Grand River Dam Authority was created to construct a $13,000,000 dam and electric power project to serve 16 counties in the northeastern part of the state.

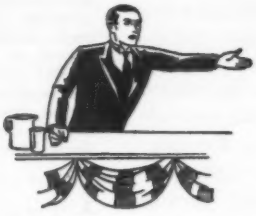
In Utah, a great basin authority board was established. It may borrow money and receive grants from the Federal government to create a fresh water lake, build dams and dikes therefor, and provide for "any beneficial use and enjoyment of water there impounded." The bill when introduced included provision for the construction of a huge steam electric plant, but this was discarded.

IN addition to authorizing municipalities to issue revenue bonds, the Puerto Rico legislature passed several other bills emanating from Washington. One of these amends an act of 1903 by providing that private property may be taken or destroyed to carry out and develop any general plan of economic reconstruction . . . and especially for the redistribution or division of lands concentrated in large estates, or for the establishment of public centrals or factories for the manufacture of sugar *or for any other industry or activity.*

Another of the Puerto Rican acts authorizes the issuance of $1,800,000 of bonds and the making of contracts with the United States, or any agency thereof, for continuing to completion the development of the water resources of the Island. The act specifically contemplates completion of the Toro Negro hydroelectric project to its final capacity.

THE California lawmakers rejected a resolution for a committee to investigate the feasibility of centralizing in the state full control and conduct of all power and water utilities. The idea behind this resolution was to pave the way for ultimate public ownership. On the other hand, the North Dakota legislature adopted a resolution directing the public service commission to investigate gas and electric rates and the feasibility of public ownership of such utilities. A report is to be made at the next legislative session (1937).

The Georgia legislature had a unique bill which was passed by the house but failed in the senate. It proposed to authorize counties and municipalities to contract with the Federal government for the construction of utility plants on a rental basis. The plan was that instead of issuing revenue bonds, the political subdivisions would make use of plants constructed at the government's expense and would pay rent therefor.



Laws for Advancement of Public Ownership

". . . the outstanding type of legislation which found favor in many states had to do, in one form or another, with the advancement of public ownership. This was due, in large part, to encouragement given by the Roosevelt administration for the enactment of laws to ease the way for municipalities and other public agencies to engage in the utility business."

THE rendering of utility service by municipalities beyond their own corporate limits was authorized in Arkansas, Minnesota, Oklahoma, and South Carolina. The Connecticut legislature rejected a bill to permit municipal gas and electric plants to sell service to other municipalities.

Antimerchandising bills bobbed up again in Arkansas, Arizona, Connecticut, California, Indiana, Massachusetts, Michigan, North Dakota, Pennsylvania, Texas, and Wisconsin. All failed of enactment, as did an Oklahoma bill to repeal that state's antimerchandising statute.

Reorganization and renaming of regulatory commissions took place in four states, while proposals of this character were rejected in the same number of states. The Texas legislature once more failed to enact a law creating a commission with general regulatory powers.

The Arkansas Fact Finding Tribunal created in 1933 to take over the regulation of utilities was abolished this year and replaced by the department of public utilities (three members) in the Arkansas Corporation Commission, which formerly exercised jurisdiction over utilities. The new statute is a complete regulatory law, including supervision of relations between utilities and their affiliates. Concurrent jurisdiction over rates and service is vested in the department and cities and towns.

In a reorganization of all state departments, the Rhode Island public utilities commission was transformed into the division of public utilities of the department of taxation and regulation. No change was made in powers and duties.

THE public utilities commission of Utah was changed to public service commission, with a revised statute authorizing regulation of dividends and providing for commission approval of utility mergers and acquisitions.

In the state of Washington, the department of public works became the department of public service.

THE South Carolina legislature ratified a constitutional amendment previously adopted by the electorate, changing the name of the railroad commission to public service commission and providing that the membership of "not less than three" (now seven) shall be elected by the people after expiration of the present commissioners' terms.

The Nebraska and Nevada legislatures turned down proposals to establish one-man commissions to replace the existing 3-member boards. In Connecticut and Michigan, bills to reorganize the commissions failed of enactment.

The Connecticut legislature, however, took a long forward stride in asserting the state's sovereignty over the operations of public utilities, including their holding company relations. Obviously anticipating enactment by Congress of the Rayburn-Wheeler public utility bill, the Connecticut lawmakers virtually issued a declaration of independence. The principal section of the new statute is deserving of reproduction. It follows:

> SEC. 6. As used in this section, "holding company" shall mean any corporation, association, or person which, either alone or in conjunction and pursuant to an arrangement or understanding with one or more other corporations, associations, or persons, directly or indirectly, controls a gas, electric, or water company. No gas, electric, or water company, or holding company, or any official, board, or commission purporting to act under any governmental authority other than that of this state or of its divisions, municipal corporations, or courts, shall interfere with or attempt to interfere with or exercise authority or control over any gas, electric, or water company incorporated by this state and engaged in the business of supplying service within this state, or with or over any holding company incorporated by this state and doing the principal part of its business within this state, without having first obtained the approval of the commission, except as the United States may properly regulate actual transactions in interstate commerce. Any action contrary to the provisions of this section shall be voidable on order of the commission.

THE Massachusetts Department of Public Utilities was given general supervision over affiliates of gas and electric utilities. The New Jersey commission also was given broad powers to control intercoporate relations, to prohibit dividend payments that would impair an operating company's capital, to require commission approval of loans to holding companies, etc. Other New Jersey acts authorize the commission to engage in negotiations for rate reductions, and require disposition of rate cases within six months.

Illinois gave to Chicago home rule of local transportation, a subject of friction ever since the state commission was established in 1914. This state also authorized cities and villages which own electric plants to issue revenue bonds, without a referendum, for extensions and improvements. Municipalities likewise were authorized to issue revenue bonds, without a vote of the electorate, for water utilities. Michigan also passed a bill authorizing revenue bonds for water utilities only. An unsuccessful effort was made to include gas and electric utilities.

An unusual picture was projected upon the legislative screen when the Illinois legislature passed a bill providing that a blind person and his dog-guide are both entitled to the facilities of any common carrier. The dog, however, must be muzzled.

A Nebraska law authorizes a municipality to create a board of public works to operate publicly owned utilities, and Iowa authorized cities to hold elections to decide whether their utilities should be managed by a board of trustees.

The New York legislature passed the last of a series of bills urged by Governor Lehman at the 1934 session. This act requires public bids on utility construction contracts. The legislature continued the life of a committee investigating utilities.

It goes without saying that utility taxes were increased in numerous instances, but no attempt will be made in this article to record the new levies. Reversing the general trend, however, the Massachusetts legislature provided that hereafter all salaries of the department of public utilities shall be paid by the state. For half a century these salaries have been paid in part by the utilities (50 per cent in recent years).

Telephone companies came in for a share of legislative attention. In Minnesota and Vermont resolutions were adopted directing an investigation of telephone rates, while the New Jersey legislature rejected a resolution calling upon the commission to reduce such rates. Massachusetts prohibited an extra charge for hand-set phones after extra payments have been made for thirty-six months. The Iowa legislature defeated a bill to permit municipalities to own and operate telephone systems.

New Hampshire's utility laws may undergo extensive revision in 1937. The legislature asked Governor H. Styles Bridges (former public service commissioner) to appoint a committee to study the matter of revising these laws and report the next session.

Scores of other bills were introduced in the various legislatures and the first half of 1935 saw the public utility executives of the country busily engaged in watching the progress of the many proposals which might vitally affect the properties under their supervision. This biennial turmoil was intensified this year by the unusual activity in the national legislative halls—but that is another story.

"It is to the credit of American railroads that their safety measures have placed them in the van as the safest mode of transportation and, as Robert C. Ripley recently pointed out in one of his 'Believe It or Not' cartoons, 'Next to bed, a railroad train is the safest place in the world.' His statement is substantiated by figures from the Illinois Commerce Commission which show that if a person boarded a train and traveled continuously night and day at an average speed of 40 miles per hour it would take more than 2,100 years for a fatal accident to occur to him."

—Fred W. Sargent,
President, Chicago and North Western Railway.

Recent Developments in the Regulation of Gas Utilities

How the public service commissions and the courts are dealing with various problems involved in the valuation of gas property for rate-making purposes, as well as their treatment of taxes, donations to charity, payments to affiliated companies, the amount of return to which stockholders are entitled, and other questions of interest.

By ELLSWORTH NICHOLS

FEDERAL advances into the area of public utility regulation presage endless red tape for those who have interstate relationships. This is far from saying, however, that Federal regulation is supplanting state regulation. Weighty Federal questions must be faced by heads of utility systems, but the every-day details of public utility regulation affecting the mass of public utility operators are now, and are likely to be for some time in the future, under the control of state commissions.

Changing views, political and economic, have not affected the fundamental principles of regulation. The rule still holds that a gas utility is obligated to serve the public and in return is entitled to a rate which will give it fair compensation. Compensation is fair when it pays for materials and labor used in service and pays the investor for the use of his property—on present value at the time it is being used by the consumers.

Valuation, accordingly, plays an important part in the rate-making process. What have recent decisions done to the valuation methods? Briefly they have continued the established methods for the most part, recognized changing price levels, and tightened the reins on witnesses who are inclined to inject into rate bases what the commissions are pleased to call fanciful, imaginary, and fictitious values.

THE present value of anything is what people at present are willing to pay for it—what it will bring in the market. If it is not for sale, it is compared with similar property which is bought and sold. If it is a great aggregation like a public utility plant which cannot readily be compared, we must compare its component parts with similar parts which are bought and sold. Market prices

of such similar parts are reproduction costs. So are the costs which would be incurred in bringing them together and putting them into a unified plant. Total reproduction cost, then, is the cost of replacing the entire plant.

The decisions show that original cost, although a factor to be considered along with reproduction cost, is not the proper rate base. Recent decisions give more force to original cost, but they steadfastly adhere to the rule that actual present value, determined by a consideration of present costs, original cost, and other factors, is the legal basis of return.

As often stated, all elements of value are to be considered in determining fair value, since no formula has yet been derived nor any method proved infallible. The element of judgment still prevails.

REPRODUCTION cost appraisals may fluctuate widely because of methods used. An assumption of piecemeal construction gives a different result than the use of wholesale construction costs. The Texas commission disapproved the theory of reproducing a distribution system upon the basis of 50 per cent wholesale construction and 50 per cent piecemeal construction where there was no testimony that the system was so constructed. The commission assumed that the plant would be reproduced 100 per cent wholesale.[1]

As indicated above, reproduction cost of a plant contemplates the use of prices currently prevailing for the component parts of a plant. When such parts are not being used in quantities, the question arises, what are proper prices? On this point it has been ruled that price quotations elicited for use in a reproduction cost estimate with no contemplation of an actual sale are by no means indicative of what quotations might be if tendered in the hope of participating in a real transaction.[2]

Paving actually cut and replaced should be included at present-day prices in determining reproduction cost of gas mains, it was held in Missouri.[3] In Texas an estimate of the cost of cutting and replacing pavement was based upon the paving that had been actually cut and replaced and the unit costs that the company was actually paying at the time of valuation, instead of an estimate based on unit costs stated to be the amount for which contractor would perform the work.[1]

No error was found in a Pennsylvania commission ruling which excluded testimony as to borough charges on service pipe openings offered to rebut testimony of an engineer who did not include such fees or charges in his unit cost of the distribution system and services. Most of the mains and service lines had been laid before the ordinance was enacted or streets paved.[4]

GOING value, from the earliest days of regulation, has been a bone of contention. Recently the tendency has been to consider going value as an element for which no separate allowance should be made apart from the valuation of public utility property as a going concern.

Still we find the law stated to be that going value must be included in the rate base. The concept of going

value is not to be used to escape rate-fixing authority, but, on the other hand, that authority is not entitled to treat a living organism as nothing more than bare bones.[5] A reduction, without basic evidence, of going concern value which the commission had previously fixed after hearing was held improper.[6]

What evidence indicates the presence of going value? Good will, it has been uniformly held, is not going value. Development cost has been given considerable weight as evidence of going value. In a Pennsylvania court decision it was said that allowances are made for going concern value, not because it represents a past loss but because it is a proper development cost, which represents an investment, gives vitality to the plant, and from which the public receives a benefit.[4]

THIS court also held that it is erroneous to assume that a lag in the development of business can be shown only from the books of the company. Evidence tending to show that a company had been managed with more than ordinary skill, it was said, would furnish a ground for an inference that the company had acquired a working force of competent employees, which is an element to be considered, since it helped to make the plant something more than bare bones. Moreover, expert testimony as to lag in development of gas utility business as distinguished from a theoretical lag cannot be ignored in determining the question of going value.

The Texas commission disapproved claims for development cost for purely arbitrary amounts not actually paid on any definite expenditure,[7] claims for interest on idle plant where the estimate was not based on any historical facts relating to the property, and claims for the cost of setting up books where the company was engaged in doing business in several towns and was an affiliated company with about eight others. The latter expense would be nominal and the allowance of administrative and legal costs was thought ample to take care of it.[1]

ACCRUED depreciation always cuts a figure in a valuation case. The general rule is that existing depreciation must be deducted in order to determine present value.[5] This is on the assumption that the utility company has, or should have, in past years charged and taken from the business as an expense an amount sufficient to cover accruing depreciation. Such is not the case when the sinking-fund method of accumulating a depreciation reserve is used. Accord-

¶ "A PUBLIC *utility is entitled to such rates as will permit it to earn a return equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties, but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures.*"

ingly, it has been held that where the sinking-fund method is followed, no deduction can be made for depreciation.[2]

Following the rule that there must be some depreciation figure before present value can be determined, it has been stated that the present condition of property must be considered, whether or not the company has built up a reserve to take care of the actual depreciation.[5]

An estimate of accrued depreciation based on inspection and intended to reflect lessened value from physical wear, tear, and deterioration, without deduction for functional depreciation such as obsolescence, inadequacy, or public requirements, is said to be too narrow a base where full provision is made in expense for consumption of capital in service, whether resulting from physical deterioration or functional causes.[8]

CONSIDERATION must be given to the apparent good faith of the officers of a public utility company in their determination that there is a reasonable requirement for the use of an item of property. A commission cannot exclude an item from the rate base as not used and useful merely because the use of the instrument might be dispensed with for the time being.[4] Moreover, the application of a percentage reduction to the valuation of all public utility property of a company, on the theory that if the use of property falls off by a certain percentage then the same percentage of the property is not longer useful and should be devalued accordingly, is fundamentally unsound in theory.[6]

Still when property is not used and useful it should not be retained in the rate base when not required for emergency use.[3] Also natural gas customers in a city should not be required to pay a rate that will yield a fair return upon that part of the system which was overbuilt or that does not have as yet the customers contemplated, by reason of extensions into additions to the city where anticipation of home construction was not realized.[1]

AFTER the determination of a rate base upon which the return is to be computed, it is necessary to discover what operating expenses should be allowed in addition to the return. Clearly the ratepayers should contribute towards operating expenses enough and no more than enough to pay for what is necessary. Donations and dues have been blacklisted by practically all commissions, although in New York under a recent statute allowing corporations to make charitable contributions and to treat them as a business expense, the commission held that it could not compel their exclusion from the operating expense account.[9]

The California commission, although not declaring absolutely that expenditures for donations should be excluded, said that claims respecting such expenditures should be substantially restricted because of the abuses almost inevitable in allowing for such an item.[2] The United States Supreme Court announced that it would not eliminate from the operating expenses of a utility in appellate proceedings items which are claimed to be disbursements for charitable and other gifts, where the lower court and

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commission have treated such items as proper operating charges.[10]

CONTRARY to some of the rulings during the early years of regulation, the rule is now well established that income taxes must be allowed as a charge against ratepayers.[4] State excise taxes as well as other taxes are included[8] but taxes assignable to property classified as nonused are excluded.[11]

Among the items of expense which have been disapproved will be found such items as expenditures for trustees' services in connection with bonds, transfer fees, merchandising expenses, unsupported management fees,[12] the cost of duplicate and unnecessary work in preparation for a rate case, the cost of amortizing unused property, an expense incurred in the past for cutting over from artificial gas to natural gas,[2] and the expense of retaining legal firms located outside the division to which the expense is charged.[8]

Although the Ohio commission, in examining the reasonableness of rates proposed by a public utility, disregarded the item of rate case expense,[11] the Supreme Court has held that a gas utility is entitled to an allowance of the expense of its successful attack upon a rate ordinance before a state commission, including charges of engineers and counsel, in the absence of evidence of improvidence, and the amount of such allowance may be spread over the period during which rates are to be effective.[10] In North Dakota it was said that the allowance as an operating expense of the cost of valuation depends upon the final determination of the reasonableness of existing rates, since the public should not pay expenses brought about by the company's defense of rates higher than reasonable.[8]

A STATE commission's action in reducing an allowance claimed for new business expense, without evidence of inefficiency or improvidence in making such expenditures for such purpose, was held to be arbitrary.[10]

Probably no question is more bitterly contested in rate cases than that of payments to affiliated companies. The burden is said to be upon the utility to sustain the reasonableness of management and supervision charges by an affiliated company.

An amount allowed by a commission for management services of a related company was held to be fair and reasonable when based upon a careful scrutiny of the intercorporate contract, taking into consideration the judgment of the corporate officers, the service rendered, and its value and necessity, although no evidence was furnished to show the cost of the service to the management company.[4]

The California commission after stating the rule that intercompany relations should be scrutinized by the commission held that cost, including a reasonable return on investment, is the controlling factor, and that no profit on top of the cost should be allowed.[2]

THE Massachusetts department disapproved part of a payment under a management contract of a gas company on the ground that the services received could have been performed directly by the company at a lower cost.[13]

The rule that the burden of proof is on the utility company to substantiate the reasonableness of intercompany payments has been applied in cases dealing with city gate charges or payments to producing companies for gas. The state regulatory authorities, it is held, have the power, as well as the duty, to investigate gas purchase contracts to determine whether the charges under such contracts should be allowed as an operating expense.[14]

The Pennsylvania commission held that it had statutory authority to issue a general order requiring all public utility companies to place on file tariffs governing terms of agreements as to wholesale utility supply between utility companies or between a utility and a municipality.[15]

The Massachusetts department held that contracts for the purchase of gas by public utility companies are primarily under its jurisdiction. It would not approve such contracts until clearly proven beneficial to consumers.[16]

A PUBLIC utility is entitled to such rates as will permit it to earn a return equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties, but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures.[5]

It is said to be unnecessary to fix a rate that just escapes being confiscatory in order that it may be a just and reasonable rate to the consumer.[11]

The constitutional prohibition against the taking of property without due process of law contains no exception permitting a taking of some property or a taking during a limited period of time as the result of a rate reduction order of a state commission.[6]

Gas rate reductions to attract industrial customers have been sustained against charges of undue discrimination. Objections by competitors have

been rejected [17] and it has been held that economic and social conditions resulting from a claimed decline in employment of coal miners and railroad employees as the result of the displacement of coal mined within the state by the use of natural gas are not factors which can legally be given consideration in determining the reasonableness of such rates.[18]

IN the development of the gas industry it has frequently seemed advisable to public utility officers to furnish without charge a reasonable amount of servicing on customers' equipment.

So long as such servicing is spread with a fair degree of equality among all the customers without imposing large expense upon customers at large for services rendered to particular individuals it can be argued that the practice is reasonable. There may be cases, however, when in the managerial judgment it may be advisable to collect servicing charges; but a change in practice, according to a recent Missouri commission decision, cannot be made without consideration of the basis on which rates have been fixed.

A gas company which had gone through a rate proceeding and had rates fixed on the basis of operating expenses and revenues which, according to the commission, contemplated the continuance of free servicing of gas appliances, was not allowed by the commission to begin charging for servicing appliances or equipment. It looked to the commission as if this change after the rate case amounted to an act affecting rates.[19]

The routine of gas utility regulation by state commissions does not offer many startling innovations. It is a settled subject in its fundamentals, but, like the common law, settled rules must ever be applied to new situations and the ingenuity of regulatory tribunals is frequently taxed to find the right rule to apply to given facts.

Footnotes

[1] Municipal Gas Co. *v.* Wichita Falls (Tex. 1935) 9 P.U.R.(N.S.) 33.

[2] San Diego *v.* San Diego Consol. Gas & E. Co. (Cal. 1935) 7 P.U.R.(N.S.) 433.

[3] *Re* Laclede Gas Light Co. (Mo. 1934) 7 P.U.R.(N.S.) 277.

[4] Chambersburg Gas Co. *v.* Public Service Commission (1935) 7 P.U.R.(N.S.) 359, — Pa. Super. Ct. —, 176 Atl. 794.

[5] Community Nat. Gas Co. *v.* Royse City (1934) 7 P.U.R.(N.S.) 178, 7 F. Supp. 481.

[6] Laclede Gas Light Co. *v.* Missouri Pub. Service Commission (1934) 6 P.U.R.(N.S.) 10, 8 F. Supp. 806.

[7] *Re* Public Service Corp. of Texas (Tex. 1934) 7 P.U.R.(N.S.) 245.

[8] Grand Forks *v.* Red River Power Co. (N. D. 1935) 8 P.U.R.(N.S.) 225.

[9] *Re* Buffalo General Electric Co. (N. Y. 1934) 6 P.U.R.(N.S.) 345.

[10] West Ohio Gas Co. *v.* Ohio Pub. Utilities Commission (1935) 6 P.U.R.(N.S.) 449, — U. S. —, 79 L. ed. —, 55 S. Ct. 316.

[11] *Re* Logan Gas Co. (Ohio, 1935) 7 P.U.R.(N.S.) 342.

[12] Texas Cities Gas Co. *v.* Waco (Tex.) Gas Utilities Docket No. 101, June 18, 1935.

[13] Customers *v.* Lowell Gas Light Co. (Mass. 1935) 10 P.U.R.(N.S.) —.

[14] Lone Star Gas Co. *v.* Corporation Commission (1934) 7 P.U.R.(N.S.) 490, 170 Okla. 292, 39 P. (2d) 547.

[15] Public Service Commission *v.* Harrisburg Gas Co. (Pa. 1934) 6 P.U.R.(N.S.) 101.

[16] *Re* Boston Consol. Gas Co. (Mass. 1935) 8 P.U.R.(N.S.) 514.

[17] El Paso County Retail Coal Dealers Asso. *v.* Colorado Springs (Colo. 1934) 7 P.U.R.(N.S.) 34.

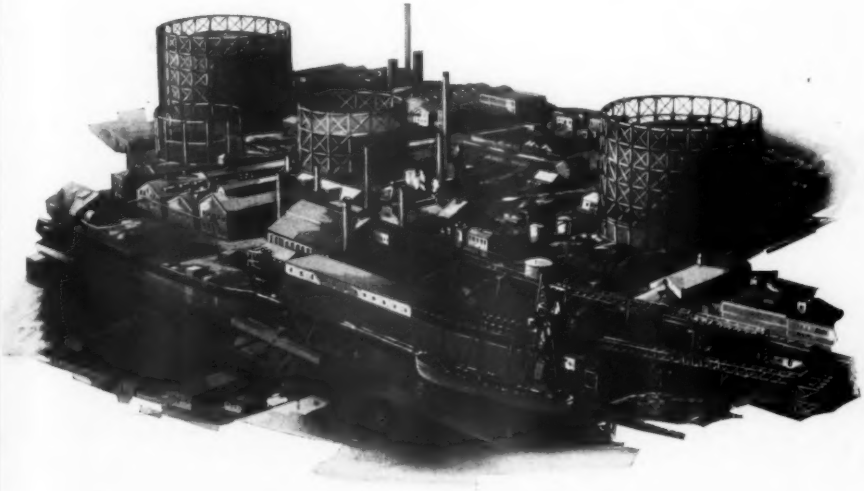
[18] Illinois Coal Operators' Asso. *v.* Peoples Gas Light & Coke Co. (Ill. 1934) 7 P.U.R.(N.S.) 403.

[19] *Re* Laclede Gas Light Co. (Mo. 1935) 9 P.U.R.(N.S.) 168.

Private Enterprise in the Gas Industry

A few of the many natural, manufactured, and mixed operating gas utility stations throughout the country, constructed and operated by private management.

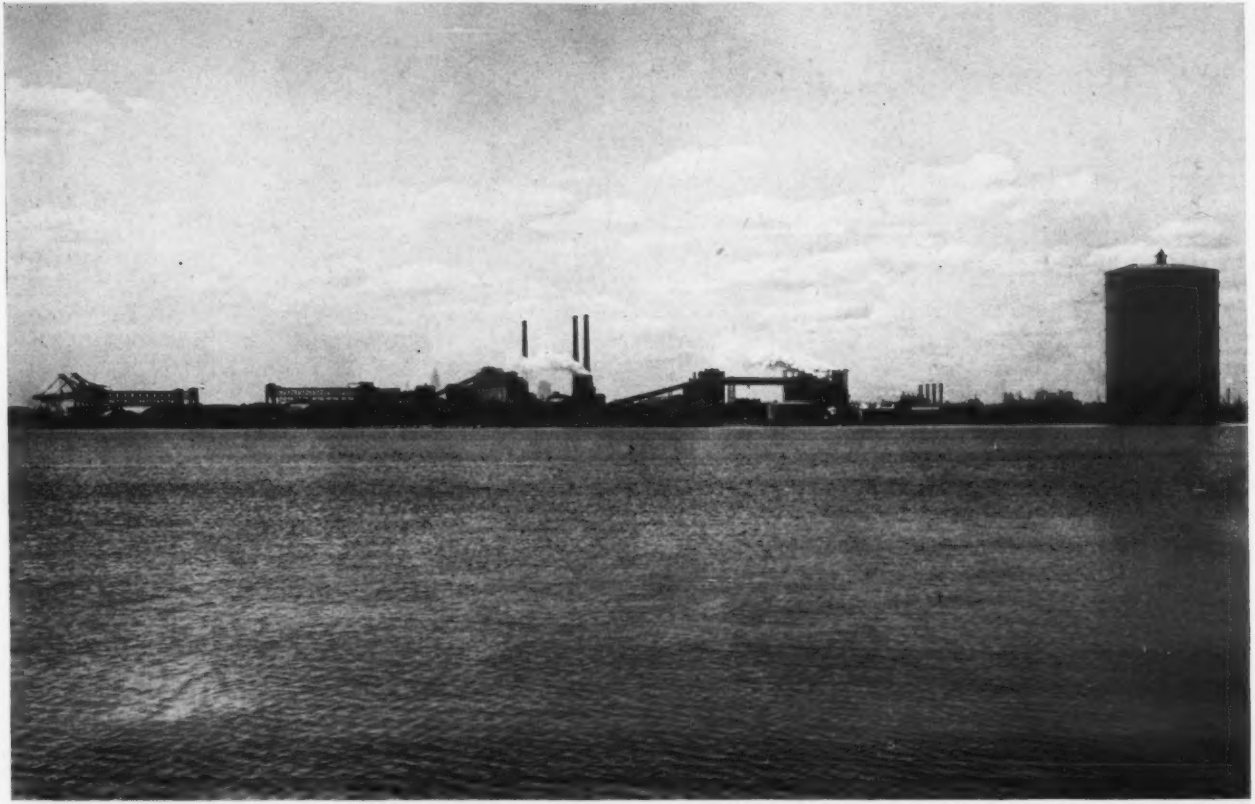
This is the ninth of a series of pictorial supplements to PUBLIC UTILITIES FORTNIGHTLY. *It portrays public service properties which contribute to our economic and social development.*



A New England Plant

A combination water and coal gas plant

PROPERTY OF CAMBRIDGE GAS LIGHT CO., CAMBRIDGE, MASS.

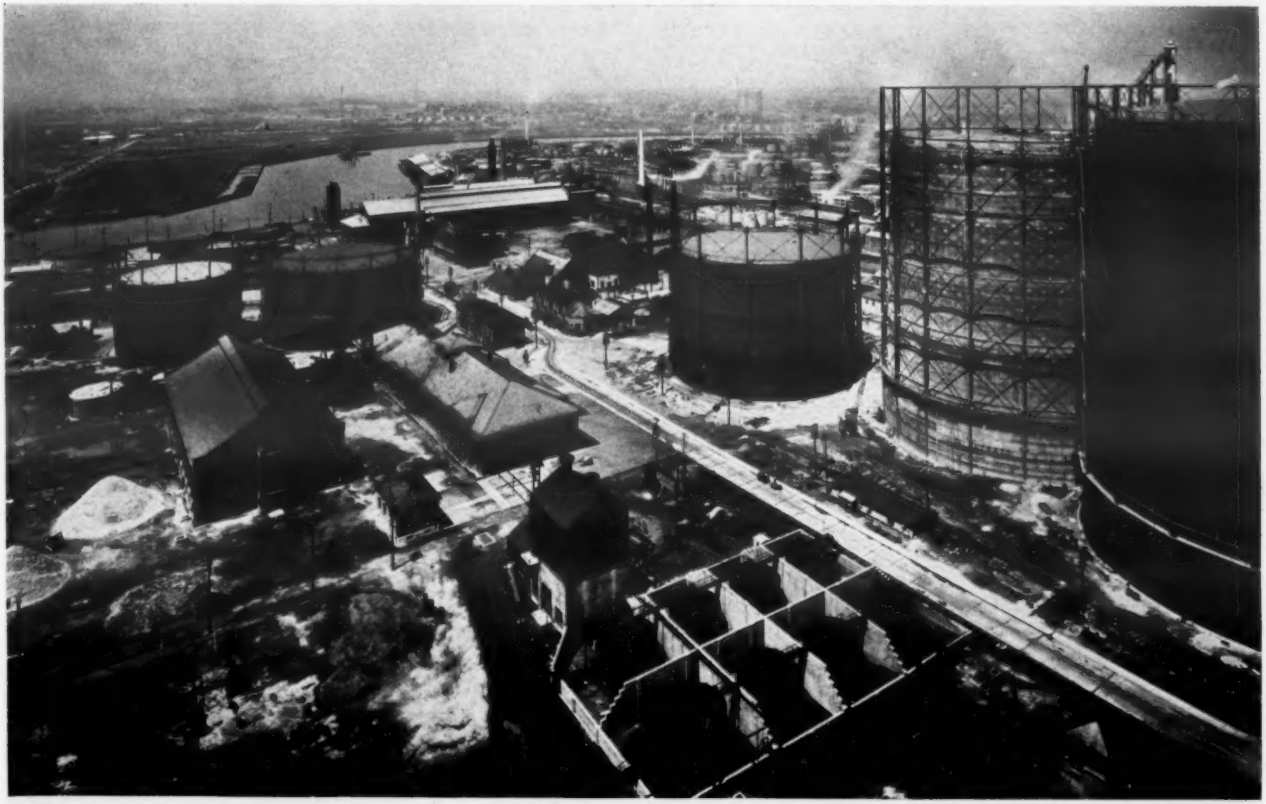


Serving the Nation's Metropolis

The smokeless skyline of the Hunt's Point gas plant in full operation

PROPERTY OF THE CONSOLIDATED GAS CO. OF NEW YORK

The smokeless skyline of the Hunt's Point gas plant in full operation
PROPERTY OF THE CONSOLIDATED GAS CO. OF NEW YORK



Bastiles of Service

Holders on the water gas plant, Station "A"

PROPERTY OF PHILADELPHIA GAS WORKS CO., PHILADELPHIA, PA.

On the Jersey Side

Air view of the Harrison gas plant

PROPERTY OF PUBLIC SERVICE ELECTRIC & GAS CO., NEWARK, N. J.

Air view of the Harrison gas plant

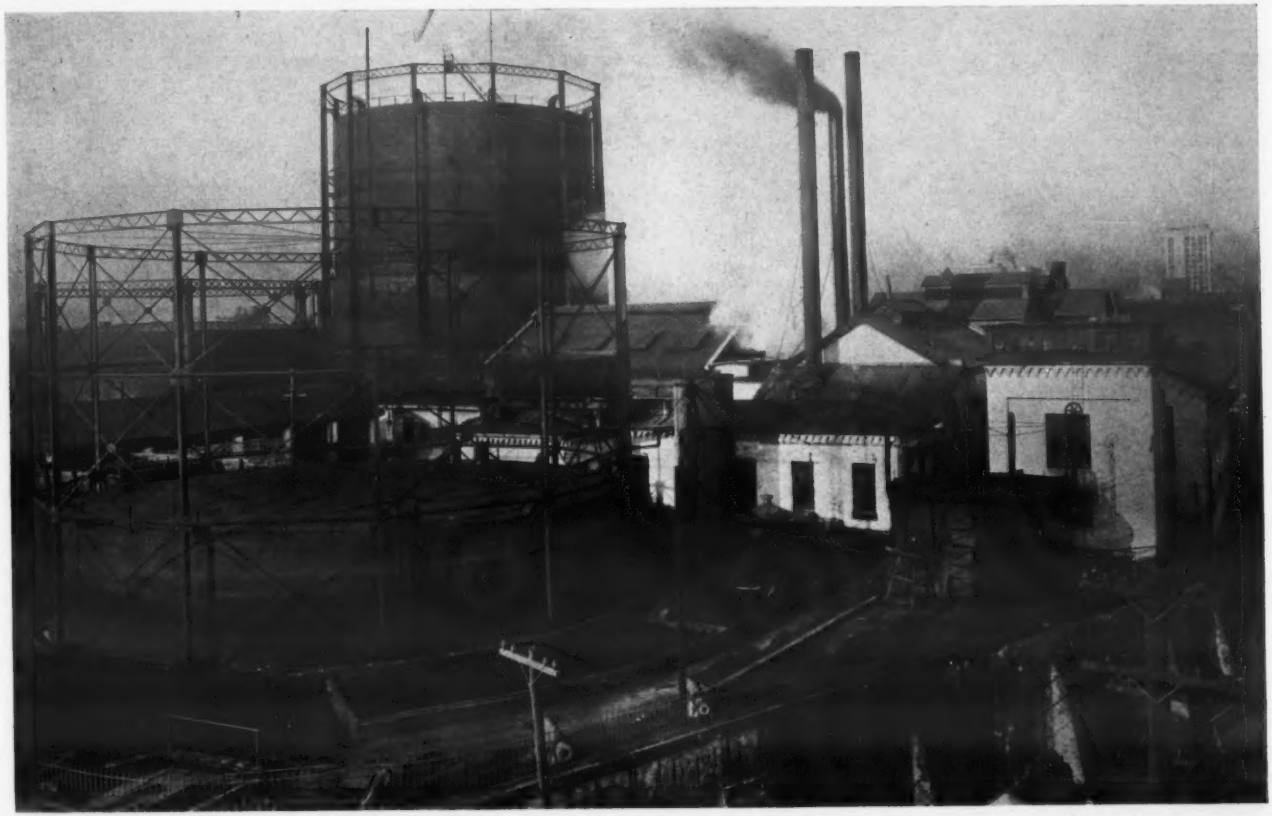
PROPERTY OF PUBLIC SERVICE ELECTRIC & GAS CO., NEWARK, N. J.

Photo by Fairchild Aerial Surveys, Inc.

On the Banks of the Hudson

Combination coke oven and water gas plant

PROPERTY OF HUDSON VALLEY FUEL CO., TROY, N. Y.



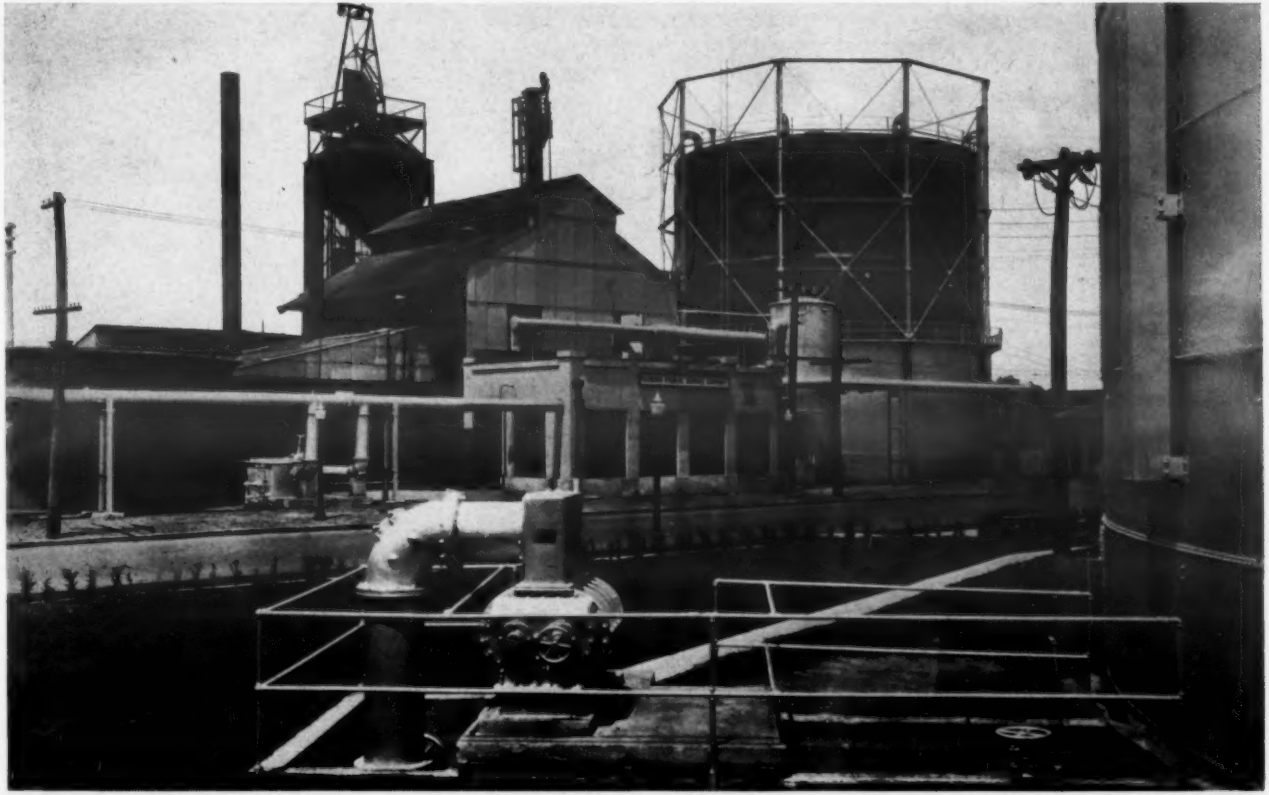
Gas Service in the Old South

Note the ancient cannon mounted on the retaining wall

PROPERTY OF SAVANNAH GAS WORKS, SAVANNAH, GA.

Note the ancient cannon mounted on the retaining wall

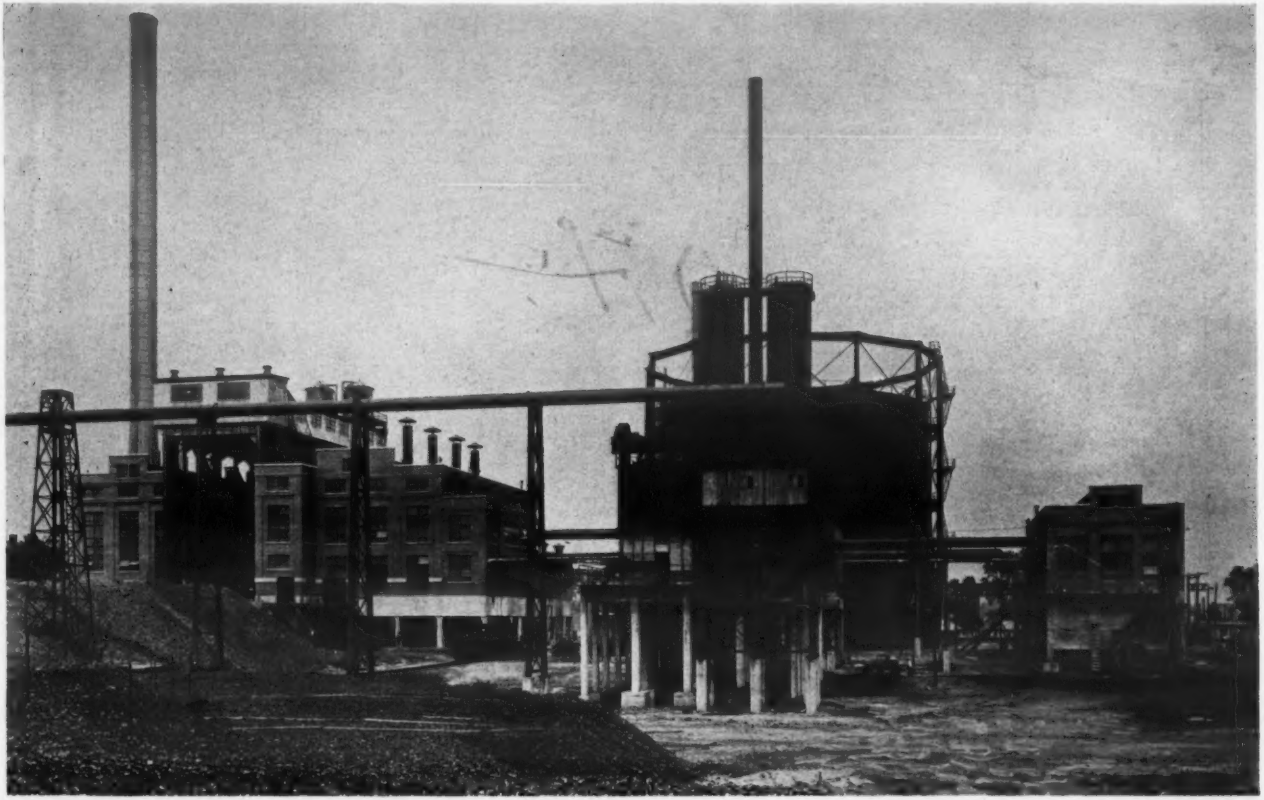
PROPERTY OF SAVANNAH GAS WORKS, SAVANNAH, GA.



Another Dixie Plant

A trim water gas production plant at Orlando, Fla.

PROPERTY OF THE FLORIDA PUBLIC SERVICE CO.

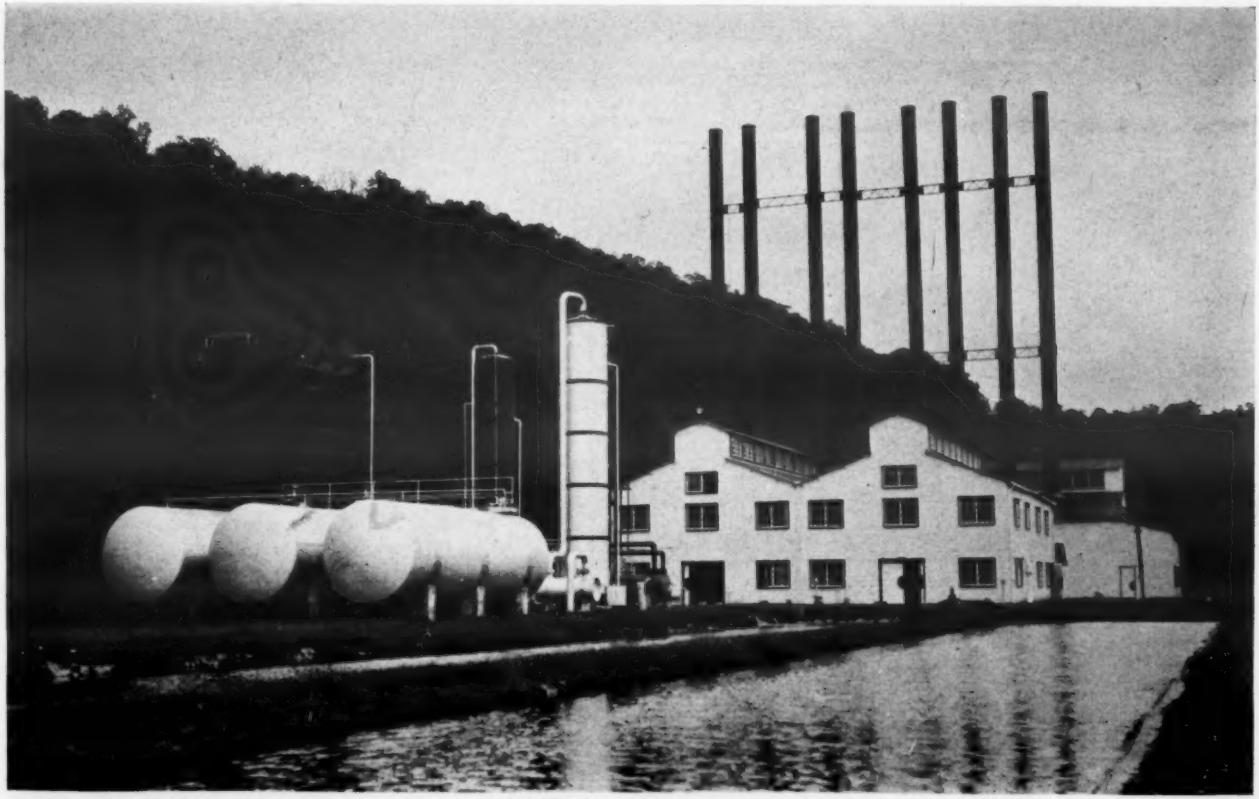


Mixed Gas Service

The product of this Bear Grass gas manufacturing plant is later mixed with natural gas

PROPERTY OF THE LOUISVILLE GAS & ELECTRIC CO.

PROPERTY OF THE LOUISVILLE GAS & ELECTRIC CO.



The Capture of Natural Gas

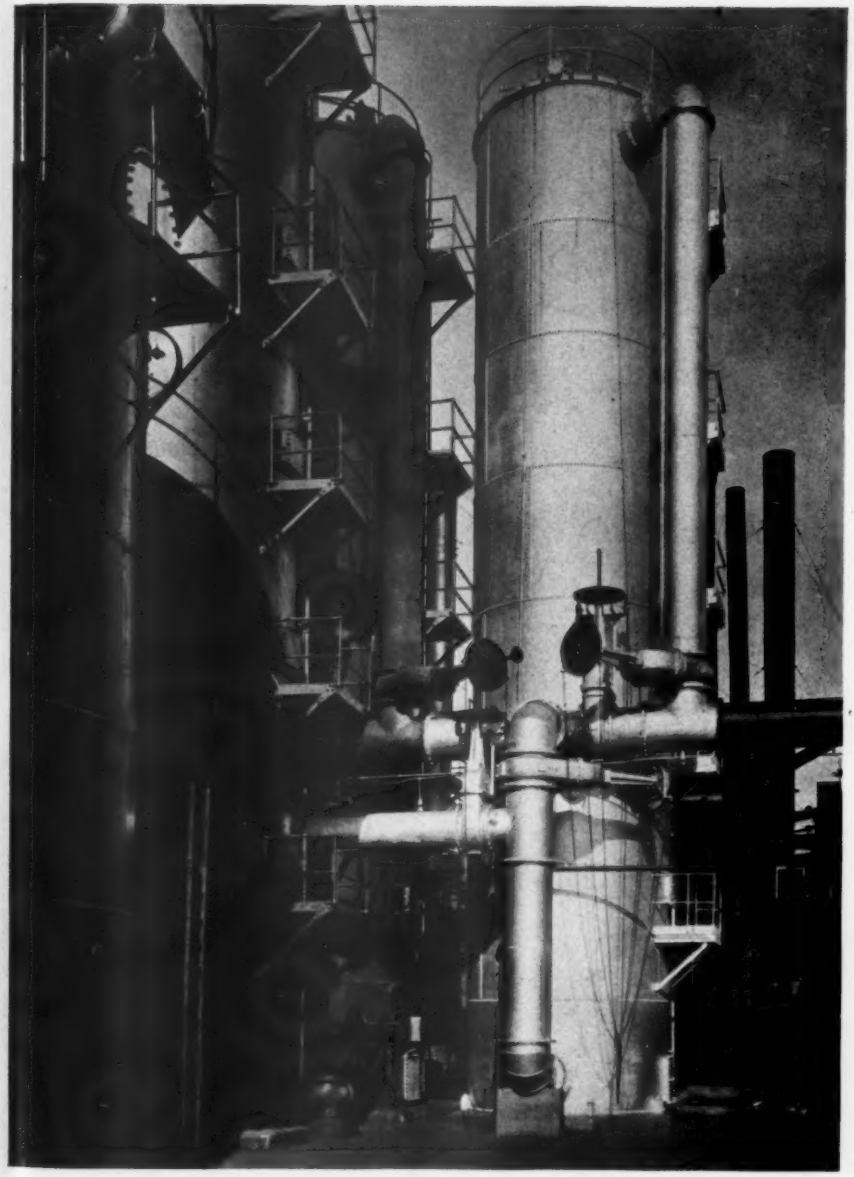
A compressor station at Rogerville, Pa.

PROPERTY OF EQUITABLE GAS CO., PITTSBURGH, PA.

The Marriage of Natural and Manufactured Gas

A pumping station where manufactured gas is compressed for mixing

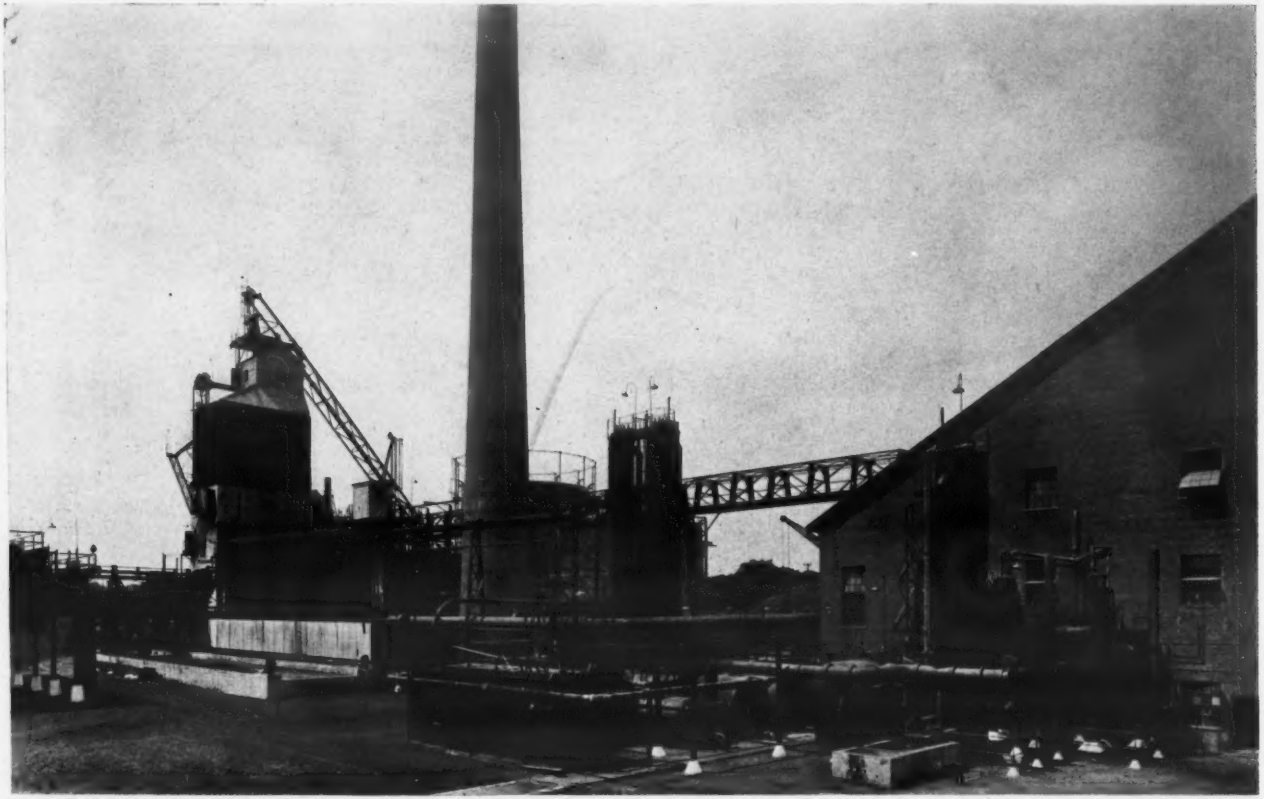
PROPERTY OF PEOPLES GAS LIGHT & COKE CO., CHICAGO, ILL.



Stand-by Service

This plant was originally installed before the advent of natural gas

PROPERTY OF SAN DIEGO CONSOLIDATED GAS & ELECTRIC CO., SAN DIEGO, CAL.



Service in the Middle West

A typical modern small oven plant

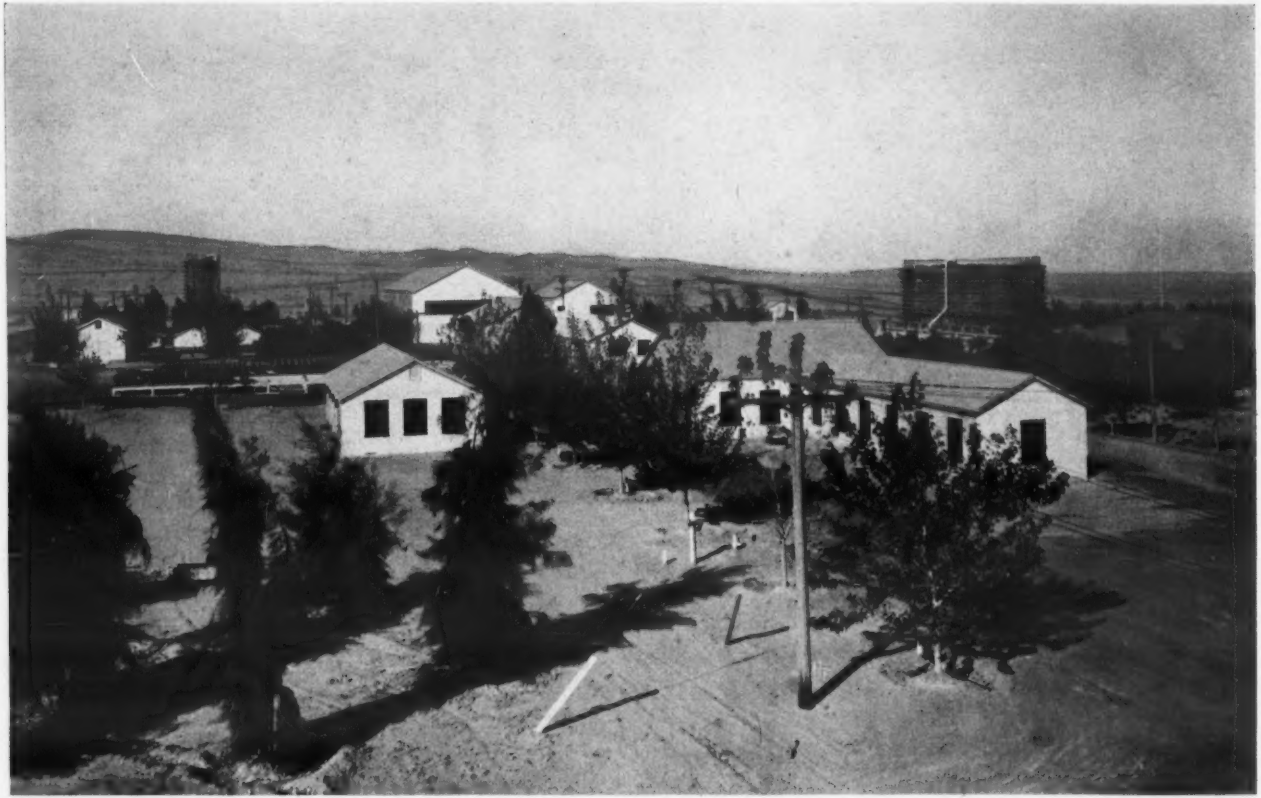
PROPERTY OF CENTRAL ILLINOIS ELECTRIC & GAS CO., ROCKFORD, ILL.

PROPERTY OF CENTRAL ILLINOIS ELECTRIC & GAS CO., ROCKFORD, ILL.

Service in the North West

A typical water gas plant for city service

PROPERTY OF THE MINNEAPOLIS GAS LIGHT CO., MINNEAPOLIS, MINN.



Extracting Gas from the Desert

Kettleman Hills compressor station, including buildings and cooling towers

PROPERTY OF PACIFIC GAS & ELECTRIC CO., SAN FRANCISCO, CAL.

Kettleman Hills compressor station, including buildings and cooling towers
PROPERTY OF PACIFIC GAS & ELECTRIC CO., SAN FRANCISCO, CAL.

Extracting Gas from the Oceanside

Huntington Beach oil fields; a forest of well towers
PROPERTY OF SOUTHERN COUNTIES GAS CO., LOS ANGELES, CAL.

Serving the Nation's Capital

A view taken from the old Georgetown section

PROPERTY OF WASHINGTON GAS LIGHT CO., WASHINGTON, D. C.

Silence May Not Be Golden

The gas utilities, in the opinion of the author, are squarely in the midst of a political storm area, whether they realize it or not, and cannot afford to remain oblivious to the events which have been happening in Washington in the last two years.

By ERNEST GREENWOOD

When this number of the Public Utilities Fortnightly comes from the press the American Gas Association will be gathering in Chicago for its seventeenth annual convention. Without doubt there will be the usual formal speeches about the gas industry, its progress during the past year, the contributions which it is making to the well-being of the nation, improvements in manufacturing and distributing, improvements in gas utilizing equipment, and the usual technical discussions. There may be a few guest speakers from other industries who will compliment the gas industry on its accomplishments and be complimented in turn as they are introduced.

Is this all that will happen? If so it seems to me that both the time and the money spent on the convention will be largely wasted. If the industry is not prepared to stick its head up and take some very definite and emphatic stand with regard to the events which have been happening in Washington during the last two years it will deserve all that may be coming to it and that may be "plenty."

For years operators of gas utilities have maintained a dignified silence on all matters pertaining to politics, the New Deal, regulation, the attitude of state and Federal governments, and on everything else not strictly pertaining to the problems of gas production and its distribution. Feeling sure that the jam in which the electric utilities find themselves has been due to "talking too much," they have remained quietly in the background hoping that the storm might pass them over. It doesn't seem to have occurred to them that perhaps the present troubles of the electric utilities are due to their failure to talk enough and that now they are trying to lock the stable door not only after the horse has been stolen but after it has been driven across the line into another country.

As a matter of fact the gas utilities are squarely in the middle of the storm whether they realize it or not. They are just as much in the middle of it as the coal industry, the oil industry, and every other industry which is or will be affected by the government's public utility policy. They may not have been attacked specifically as public utilities but they are being attacked in many other ways—ways which are as hidden and as insidious as indirect taxes.

It is hardly possible that they have not heard of the government's great "conservation" plans, the latest ballyhoo to take the place of flood control, navigation improvement, national defense, reclamation, etc., as the alibi for the development of government owned and operated hydroelectric projects. It is hardly possible that they have not heard of the strenuous efforts which are being made by the Tennessee Valley Authority to turn domestic consumers from gas to electricity for cooking and water heating. It seems hardly possible that they can fail to realize what a vast net-work of government owned and operated hydroelectric plants supported by steam stand-by plants (there will have to be some steam stand-by plants) means to their business.

If the government, ignoring the burden it may place on the taxpayer, is determined to produce an unlimited supply of electric light and power to sell at a price which will put the privately owned electric light and power industry entirely out of business it will sell it so cheaply that it will put the gas industry out of business. Electricity will take the place of gas for house heating, cooking, water heating, and all other domestic purposes. Gas ranges and gas refrigerators will become merely museum pieces. Mayor La Guardia's dream of putting the Consolidated Gas Company of New York and its four associated electric light and power companies on the spot and taking it for its last long ride will have come true on a nation-wide scale. And much of the blame will be attached to the reluctance of the gas industry and many other large scale industries to join with the electric utilities in their fight for life with the radical forces in Washington.

WHAT does it mean if the gas industry hits the long, long trail in company with the electric light and power industry?

Most of the discussion revolving around the present controversy between the Federal administration and the utilities has been confined to the electric utilities and the fact that a few million thrifty American citizens have contributed about 14 billion dollars to make them what they are today. But the gas industry which is much older than the electrical industry—it is now more than 100 years old—is made up of 2,000 companies serving 15,000,000 customers and represents an investment of nearly 5 billion dollars entrusted to it by more than 3 million people. In other words, when we talk about the utilities being on the spot we must talk about 19 billion dollars and not 14 billion dollars. Is the gas industry to be just one of the innocent bystanders in this war on the electric utilities?

Not at all. We must not forget, says the conservation faction in the New Deal scheme of things, that the

Gas Industry's Interest in Federal Power Policies

"If the government, ignoring the burden it may place on the taxpayer, is determined to produce an unlimited supply of electric light and power to sell at a price which will put the privately owned electric light and power industry entirely out of business it will sell it so cheaply that it will put the gas industry out of business. Electricity will take the place of gas for house heating, cooking, water heating, and all other domestic purposes."

gas industry is a great consumer of coal. Coal must be conserved even though it may mean the destruction—or nationalization a la the Guffey act—of the coal mining industry. If we keep on with our reckless use of coal the last clinker will be raked out of the furnace by about 1964. What is the actual situation?

On January 1, 1934, we had more than 7½ billion tons of anthracite and 1,617 billion tons of bituminous coal available not including more than 600 billion tons of bituminous more than 3,000 feet under the ground which improved methods of mining will recover in the future. This seems like a lot of coal.

Without going any further into statistics it has been estimated by the best authorities that at the present rate of consumption our anthracite will last about 115 years and our bituminous coal about 3,434 years. The gas industry and the electric light and power industry combined consume approximately 48 million tons of bituminous coal a year or about one fifteenth of the total production. The amount of anthracite which they use is not important. So when the New Dealers argue that one of the reasons for establishing a vast government owned and operated hydroelectric system is to conserve the coal now being used by the electric light and gas utilities we are brought face to face, once more, with the *reductio ad absurdum*. The taxpayers are asked to spend billions upon billions of dollars which they haven't got in order to prepare for some obscure catastrophe which may happen around the year 5,400 A.D. At the same time they are asked to acquiesce in the destruction of the privately owned public utilities—worth about 19 billion dollars—as well as the destruction of a very considerable market for the coal industry.

To demonstrate just what the administration's fight on the public utilities as well as upon various other industries really means it is necessary to take a concrete case—the Tennessee Valley Authority. We find, for example, that the steam generating plants of the southeastern companies, which have constituted 40 per cent of their capacity, practically idle because at the *request* of the government they

have been shut down so that the companies might purchase power from Wilson dam paying an amount *equal* to what it would have cost them to generate by steam.

The result is the abandonment of plants which cost millions of dollars all to no purpose except to provide a market for government generated electricity. This adds to unemployment—the employees of these steam plants found themselves in the ranks of the unemployed. It wiped out a substantial market for coal. It reduced the freight receipts of the railroads carrying coal to these plants.

All of these items are important for if the government's plans are carried out to their ultimate conclusion they will be multiplied hundreds of times. Every million tons of coal mined, transported, and distributed, represent in the aggregate one million work days or steady work for a year of 300 days for approximately 3,335 men. Every million tons of coal displaced by hydroelectric power means the loss of one million work days each year and in perpetuity. In the generation of hydroelectric power every million kilowatts (year) represents 6 million tons of coal, or steady employment 300 days a year for more than 20,000 men. The 48 million tons of coal consumed by the private utilities—gas and electric—represent steady employment 300 days in the year for approximately 160,000 men.

THE coal industry, as represented by the National Coal Association, is the one industry which has, without hesitation, joined in with the electric utilities in their fight for life. It may have a selfish motive, it may be just trying to "save its own skin," but the fact remains that it has had intelligence enough to realize what the consummation of the government's water-power development program means to owners of securities representing billions of dollars invested not only in the electric utilities but in the gas utilities, in mines, in railroads, in oil companies, and in a great variety of other business enterprises. And, it had intelligence enough to know that the fight was just as much its fight as it is the fight of the electrical industry. What has the National Coal Association had to say about its position?

> It is conceded that this projected addition of huge blocks of government subsidized hydroelectric power in areas where existing power plants have capacity far in excess of present consumption or demand must inevitably be inimical to the coal industry. It is self-evident that as a consequence the market for coal will be severely curtailed and in some areas quite probably utterly destroyed. The advocates of the government's power promotion schemes are politely regretful of this impending disaster to coal but view it as no more than a minor incidence in the process of electrifying America via the United States Treasury.
>
> No one disputes electricity's beneficence nor opposes its increased use whenever and wherever it is honestly economically superior to other agencies, or supplementary to them. To charge that the critics and opponents of the present water-power promotion program are opposing the spread of the use of electricity is rank misrepresentation. To answer the indictment which the coal industry has brought against this program by simply labeling the program progress and saying that hence any opposition to it is opposition to progress is to beg the question and obscure the issue.

THERE is nothing ambiguous about that language. No public utility "propagandist" could state it with more force. The coal industry knows that if the government's program is consummated it means the annihilation of hundreds of coal mines upon which entire communities depend for

their support. It knows that it is not a small "capitalistic" group which would suffer, as the government's propagandists would have us believe, nor is it the millionaire whose pocketbook is pinched. It is the worker and the average man whose small savings are invested, either directly or through banks and insurance companies, who is the final loser.

If it were possible to say that the government's program and the wider use of electric light and power bore any relation to one another it might be possible to argue that the movement represents progress. If these hydroelectric projects which the American taxpayer is being called upon to finance to the extent of billions of dollars were, by the widest stretch of the imagination, economically sound or justifiable from a social point of view, we might look upon them with equanimity even though we squirm under the back-breaking burden placed upon this and countless future generations. But they are not. They are just so much waste and folly.

YEARS ago the Southern California Edison Company announced that it would develop no more water power in the state—it could generate electricity with steam plants using cheap fuel oil and natural gas cheaper than it could generate with water even though water does run down hill and apparently costs nothing. Yet the government marched bravely ahead, building Boulder Canyon dam, creating generating facilities for an area that already has more generating facilities than it knows what to do with, and to what end?

Of course, there has been the usual camouflage of flood control, reclamation, water supply, etc., but the facts are that the government is going to transmit hydroelectric power 250 miles to compete with a privately owned and operated public utility which can generate electricity with steam cheaper than it can be generated by a water power in its own back yard. We may conserve a little fuel oil and a little natural gas and we may do some kind of a social uplifting job in the Imperial valley just as we are supposed to be doing a social uplifting job in the Tennessee valley but will it be worth the destruction which seems to always accompany this sort of political conservation? The only answer is that it will be just one more peg in the coffin of the public utilities and one more step toward the destruction of all individual initiative and private enterprise.

BY October, 1934, the administration had the taxpayers committed to an expenditure of three quarters of a billion dollars on its power program with the promise that this would run into several billion dollars by the time

¶ "WE *must not forget, says the conservation faction in the New Deal scheme of things, that the gas industry is a great consumer of coal. Coal must be conserved even though it may mean the destruction—or nationalization a la the Guffey act—of the coal mining industry.*"

the complete program is completed. These commitments, it should be understood, are exclusive of the St. Lawrence river development, Santee Cooper (S. C.) Central valley, (Cal.), Passamaquoddy, Missouri Valley Authority, Wabash Valley Authority, Arkansas River Authority, etc. The public may not know it but we are going to have the Tennessee Valley Authority reproduced all over the map if the President has his way.

In the areas where construction work has already started nearly 3 billion dollars have been invested in the privately owned utilities. The present excess generating capacity (allowing for a 50 per cent load factor) ranges from 45 per cent to 209 per cent with an average of 84 per cent. *When the government gets through with this first step in its program there will be an average excess available of 124 per cent.*

No matter what the administration may call it, the plan is nothing but a scheme to ruin the utilities and incidentally one or two other industries in the first great offensive in the war on the profit and loss system.

Odd Facts about Gas Service

GAS obtained from sewage is being used to operate a small electric light and power plant serving municipal needs in an Indiana city at a reported cost of less than 40 cents a week.

* *

REVERSING the foregoing process, however, officials of the Ontario Hydro Electric Commission, facing a problem of utilizing surplus power, particularly during off-peak hours, are considering electric processes whereby artificial gas might be manufactured through oxygen-hydrogen disintegration of water.

* *

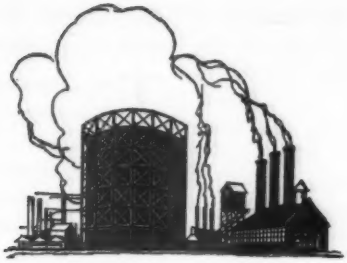
UNDER the new American Standard Requirements for gas water heaters (effective Jan. 1, 1935), a tested thermal efficiency of 70 per cent is specified—an increase of 5 per cent over former standards.

* *

IT is against the law of Arkansas (according to an opinion by its attorney general) to establish a plant for extracting "carbon black" from natural gas even though the gas might be piped in from Louisiana or other outside points. Illegal waste in dissipating the heating value of the gas is given as the reason.

* *

"RURAL gassification" is reported to be the purpose of a promotional scheme seeking Wall Street financing of a butane process for capturing natural gas now being wasted in Texas and other oil fields. Overtures are said to have been made for Federal aid in rural distribution of the product along lines somewhat analogous to the Rural Electrification Administration.



Better and Safer Appliances for Gas Customers

American Gas Association Laboratories celebrate decade of testing and certifying gas burning equipment

By R. M. CONNER
DIRECTOR OF TESTING LABORATORIES

THE public utility, by the very nature of the activity in which it is engaged, must accept as its basic responsibility unfailing service to the public. The trade association of an industry, in turn, pledges first allegiance to the welfare of the particular field of enterprise in which its members are engaged. Logically, therefore, the obligations of a trade group which counts public utilities in its membership are twofold. The American Gas Association, national trade association of the gas industry of the United States, phrases these obligations in the first clause of its constitution:

> To promote and develop the gas industry to the end that it may serve to the fullest possible extent the best interests of the public.

An outstanding step in serving the best interests of the public was taken ten years ago by the American Gas Association, when it undertook in behalf of both the gas industry and its customers a far-reaching program of testing and certification for all types of gas appliances and their accessories. It is universally recognized that this coöperative effort has enjoyed unusual success. It has to its credit the most important accomplishments in the field of consumer goods standardization that have thus far been brought about. It has brought into being and prominence the largest and most completely equipped gas appliance testing laboratory in the world. It has proved so helpful to gas consumers that at the present time well over 90 per cent of all the domestic appliances sold in the United States and Canada bears the insignia of American or Canadian Gas Association approval. And it has probably contributed more than any other factor to the marked developments of gas-consuming equipment that have

occurred during the past decade.

This certification program of the American Gas Association and its instrument of operation, the association's testing laboratories, are both ten years old this year. The time is propitious for explanation of operations, reviews of progress, and analyses of prospects for the future.

THE association was extremely fortunate in having available, prior to the inauguration of its appliance testing and certification program, a wealth of experience accumulated by utilities and manufacturing companies which had maintained gas appliance laboratories of their own for many years. There were also in existence at that time certain standards for appliance performance and construction which had been developed by predecessor organizations. Upon this background of experience it was possible to build soundly—to plan and direct the operations of a testing laboratory for gas equipment second to none.

Furthermore, in 1915, the task of preparing a nationally acceptable gas safety code, a manual setting forth the fundamental principle governing gas utilization, had been undertaken by a committee representing the National Bureau of Standards and two major associations of the gas industry later consolidated into the American Gas Association. By 1925, when the A. G. A. certification program was launched and testing laboratory operations begun, this gas safety code had been thoroughly worked out and had won universal endorsement by having been approved as a tentative American engineering standard by that leading national agency of standardization now known as the American Standards Association.

THIS gas safety code served as a foundation upon which the various sets of requirements to be met by tested equipment could be formed. Thus, experience, certain existing but embryonic standards, and the gas safety code constituted the raw materials from which has been fashioned, by further study, exhaustive researches and the outstanding coöperation of our member companies, the now familiar and esteemed American Gas Association program of laboratory certification for gas burning appliances and their accessories.

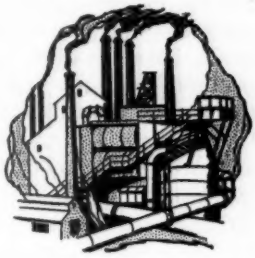
Since its modest beginning the association's testing laboratories have grown until today they are the largest of their kind in the world, representing a total capital investment approximating $500,000. Both units, one in Cleveland and one in Los Angeles, are equipped with the most sensitive and accurate scientific instruments for testing and research purposes which can be obtained in the field. Many of these have been developed by the laboratories' engineers. The staff is comprised of forty-four experienced engineers and secretarial assistants.

From coast to coast the work of the laboratories has been encouragingly acclaimed, and its procedures have been copied in several foreign lands. Its contribution to the gas industry of the United States and to its customers has been great. However, before these matters are further considered, it will be well to outline the exact nature of its activities.

THE testing and certification work of the laboratories, apart from

Standardization for Benefit of Consumers

"THE gas industry was one of the first great business enterprises in the country to attempt a complete program of standardization of consumer goods, and it has so executed this program that it is unique in the annals of American business. Few other industries can boast a testing and certification program which is so thorough, so impartial to specific interest, so widely accepted, and so obviously in the public interest as that of the gas industry."



certain administrative aspects, logically falls into four principal classifications:

1. Development of engineering standards by which the suitability of appliances and accessories may be judged;
2. Conduct of research to secure fundamental knowledge for use in the preparation and revision of such standards;
3. Testing of appliances and accessories to determine their compliance with these standards;
4. The certification of those fully meeting such requirements, and regular inspection of production models at the manufacturers' factories to insure exact and continued compliance of all merchandised goods with the association's requirements.

The development of standards is a function of the American Gas Association's approval requirements committee. Comprising this body are representatives not only of the industry itself, such as appliance manufacturers and gas companies, but also governmental bureaus, other trade associations, technical societies, and home economics groups, as well as several other national organizations having a direct or indirect interest in the utilization of the products and services of the gas industry. This group also functions as a sectional committee of the American Standards Association, the foremost standardization agency in America, and to which has been delegated much of the commercial standardization work formerly conducted by the National Bureau of Standards. Technical development of these requirements rests largely with the 33 subcommittees of the approval requirements group, each of which is responsible for a separate type of appliance or accessory. The membership of these subcommittees totals approximately 284 representatives who are eminently qualified for such work and recognized as national authorities.

UNDER this careful committee procedure, approval or listing requirements have been prepared for the performance and construction of 28 separate and distinct classes of gas appliances and accessories. Gas ranges, water heaters, furnaces, boilers, floor furnaces, radiant heaters, circulators, unit heaters, gas-steam and hot water radiators, hotel and restaurant ranges, industrial gas boilers, gas refrigerators, clothes dryers, gas heated ironers, incinerators, pri-

vate garage heaters, hot plates and laundry stoves, hair dryers, flexible gas tubing, thermostats, pressure regulators, burner valves, draft hoods, conversion burners, relief and automatic shut-off valves for water heaters, semirigid gas appliance tubing and fittings, automatic main gas-control valves, and thermostatic pilots, all are covered by appropriate sets of standards. In addition, two sets of standards covering the proper installation of house piping and appliances, and conversion burners, have been completed under this procedure. It is extremely significant that 24 of these gas appliance, accessory, and installation standards have been approved by the American Standards Association and have been published as American Standards. Similar recognition has been accorded no other class of domestic appliances.

As a result of the rapid strides made in the design and manufacture of gas burning equipment and accessories during the past decade, it has been necessary to revise each of these sets of standards frequently so that they may be kept abreast of developments. A further objective in the continual revision of these requirements is to strengthen and augment them so that the significance of the association's laboratory approval seal which must be displayed on every approved product will increase from year to year. For this purpose meetings are held semiannually, or more frequently in certain cases, by the approval requirements committee as well as by each of its many subcommittees.

At least sessions revisions proposed by either men in the industry, interested external agencies, the laboratories, or committee members themselves, are discussed at length and carefully considered. Frequently, subcommittees find it necessary to conduct surveys or provide for special laboratory studies before a sound final decision may be reached. Even thereafter, revisions must be printed and submitted to the entire industry for criticism and comment over a reasonable period of time, reconsidered in the light of responses received, and completely approved by the A. S. A. sectional committee, project Z21, A. G. A. approval requirements committee, and subsequently by the American Standards Association, before they become officially adopted. All manufacturers affected are then notified and the new clauses made effective for enforcement at some specific date in the future. The procedure employed in the formulation of new requirements is quite similar. Thus, continued but thoroughgoing modernization of specifications is made possible without working undue hardships upon appliance builders.

A vast amount of study is, of course, involved in the prepartion of such nationally recognized standards. Moreover, considerable investigational work must be completed to apply to necessary information. Much of this study and research is assigned to, and conducted by, the association's testing laboratories, although in some instances special problems have been undertaken by other organizations, particularly the National Bureau of Standards. Since the laboratories' inception it has completed over 300 specific research projects for

the guidance of requirements committees. These investigations have ranged all the way from determinations of the effective life of hundreds of varieties of gas burner valves to studies of the proper type of test gases to be most representatively employed during different approval testing operations. In fact, these investigations have covered almost every known phase of gas appliance construction and performance and have unquestionably had, as will be pointed out later, a pronounced effect in improving the quality and performance of modern gas appliances.

The actual testing of appliances and accessories for compliance with approval and listing standards is a huge task even in the modern laboratories established and equipped for such purposes. For example, a gas range must be subjected to, and comply with, over 275 separate tests before approval may be granted on it.

COMPLIANCE with these standards as determined by test signifies that an appliance will in every particular provide safe, efficient, convenient, and long service. Appliances meeting such requirements will also possess desirable characteristics from the standpoint of ease of servicing and maintenance which, in the final analysis, constitutes a further contribution to economical service. It is noteworthy that 99.8 per cent of all appliances submitted for approval fail to comply with the requirements in one or a number of respects when first tested and require changes or redesign before approval can be granted on them. Yet more than 90 per cent of all the gas appliances sold in this country and Canada bear the laboratory seal of approval. It can only be concluded that, in almost every instance, the display of the laboratory seal designates a better appliance than would otherwise have been the case.

The laboratory's program also affords an additional safeguard in that it maintains an elaborate system of inspection whereby the products of each manufacturer of approved goods are checked at least once each year on the factory assembly line and by a laboratory representative to insure the maintenance of identical performance and constructional characteristics possessed by the model actually tested at the laboratories. Formerly, approval was continued indefinitely from year to year on those certified appliances which were found by inspection to be satisfactory. Recently, however, a plan of considerable significance was inaugurated which, in effect, will require retesting of appliances every five years to insure their compliance with current modern standards.

IT is apparent certainly that from the first research and contemplation

¶ "FROM *coast to coast the work of the laboratories has been encouragingly acclaimed, and its procedures have been copied in several foreign lands. Its contribution to the gas industry of the United States and to its customers has been great.*"

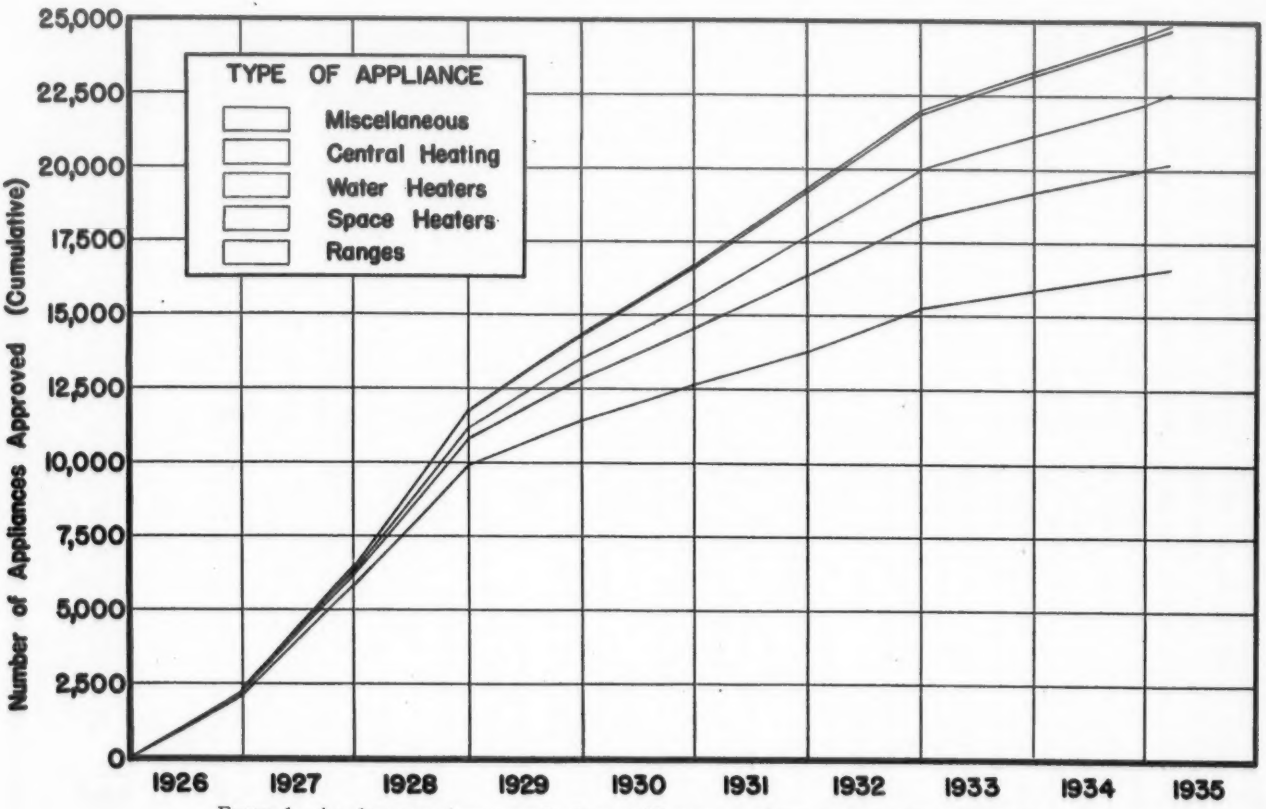


FIGURE 1.—AN APPROVED APPLIANCE IS ONE IN WHICH THE OWNER MAY HAVE CONFIDENCE.
Number of Different Gas Appliances Approved by A.G.A. Testing Laboratories in Its First Decade of Service.

FIGURE 2.—FOR THE SAKE OF AMERICAN GAS CONSUMERS.
The estimated Investment in Appliance Improvement Resulting from the Laboratory Program.

leading to the formulation of requirements to the final inspection of manufactured products approved in accordance with nationally recognized engineering standards, the American Gas Association has established and maintained a complete, workable, and strict testing and certification program dedicated exclusively to the best interests of the gas industry and the customers it serves. A few outstanding aspects of the contributions made by this program of self-regulation in its ten years of existence, to gas consumers and business interests in the gas industry, have already been touched upon. Certain additional facts and statistics, however, might well be reviewed to emphasize the point.

Today more than 24,000 models and types of appliances of the 28 varieties for which standards now exist have been certified, and as a result millions of gas appliances display the laboratory seal of approval. Purchasers of domestic gas burning equipment throughout the country use that emblem as a guide in buying.

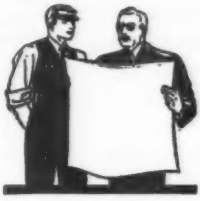
Miss Aubyn Chinn, chairman of the home economies in the business section, American Home Economics Association, for example, stated last summer over a nation-wide radio hook-up that

> The consumer is always glad to know any simple standard by which she can judge, and even further than that she likes to read in advertising the facts behind that standard. For instance, I am thinking of the American Gas Association. Their committee on standards has listed a number of fundamental points in the manufacture of a stove which must be present if the standard seal of that industry is to be placed upon that piece of equipment. This emblem represents the judgment of the best engineers in this field. The consumer knows that she can trust their judgment. She likes to be told about this standard. The consumer does not wish to buy with the feeling that unless she watches out for every item, she is going to be exploited or cheated.

It is significant, further, to observe that ever since 1926 the American Gas Association has urged the sale by its member companies of only approved types of domestic gas burning equipment. At the present time practically every gas company on the North American Continent confines its sales exclusively to such types. Furthermore, many commercial and merchandising organizations have gone on record stating that their members would make a practice of merchandising only American Gas Association approved products. Included among these are such organizations as the Master Plumbers' Association and the National Hardware Dealers Association.

In 1931 a coöperative merchandising program was promulgated by the American Gas Association between public utilities and gas appliance dealers throughout the United States. Eleven basic principles were set forth in this plan, the first of which stated: "Gas appliances offered for sale shall bear the seal of approval of the American Gas Association Testing Laboratory." Incidentally, these principles were adopted by the Pennsylvania Utilities Association, the Missouri Association of Public Utilities, and other affiliated organizations, as well as by the great majority of the gas companies and gas appliance dealers.

Furthermore, many state and municipal regulatory bodies have for a number of years been active in adopting statutes and ordinances which in effect specify that only American Gas



Laboratory Seal a Guide to Buying

"TODAY more than 24,000 models and types of appliances of the 28 varieties for which standards now exist have been certified, and as a result millions of gas appliances display the laboratory seal of approval. Purchasers of domestic gas burning equipment throughout the country use that emblem as a guide in buying."

Association approved gas appliances may be sold and installed in the respective territories under the jurisdiction of such authorities.

It is only logical that the utilities, regulatory bodies, appliance sales groups, and gas users of the United States should hold approved equipment in high esteem. Let us consider briefly the improvement in appliances made during the past decade as a result of the laboratory's activities.

APPROXIMATELY $450,000 has been spent in research at the laboratories, well over half of which has directly concerned the construction and performance features of domestic gas appliances. Some 25,000 models of appliances have been approved; and since in all but two tenths of one per cent of these cases the manufacturers of the equipment tested have been required to effect improvements in design or construction, large or small, before certification is granted, the expenditure of vast sums for the betterment of gas consuming equipment has directly resulted from the laboratory's testing operations. It is estimated that such activities have been responsible for an investment of approximately six million dollars on the part of coöperating manufacturers.

By way of illustration, note the differences in efficiency between the products of the period of 1926 to 1928 and the appliances of 1934. According to the laboratory's records of test, the average efficiencies of gas ranges (top burners only) have increased 21.2 per cent during the 7-year interval indicated, the average efficiencies of water heaters 5.9 per cent, of gas space heaters 2.9 per cent, of warm air furnaces 2.7 per cent, and of boilers 1.3 per cent.

But efficiency is not all. Gas appliance safety, convenience, strength, durability, and appearance have all profited from the laboratory's work. More and more do A. G. A. requirements embody clauses covering items other than safety and minimum effi-

ciency. Since 1928 the number of stipulations in the various sets of appliance and accessory standards which concern matters of convenience, appearance, strength, and so on, have doubled and trebled. Contrast the "modern" range of 1927 with the "modern" range of today. It is no wonder indeed that laboratory approval is rapidly becoming the first and most important consideration in the purchase of a gas appliance, as it unquestionably should be.

It is, of course, impossible definitely to evaluate the benefits by way of increased gas sales resulting from the laboratory program as outlined herein. However, we are convinced that, in the absence of a self-regulatory program such as our industry has been imposing for the past ten years, our industry would have suffered more severely from inroads of competition and would stand less favorably in the eyes of the American public than it does at the present time.

The gas industry was one of the first great business enterprises in the country to attempt a complete program of standardization of consumer goods, and it has so executed this program that it is unique in the annals of American business. Few other industries can boast a testing and certification program which is so thorough, so impartial to specific interests, so widely accepted, and so obviously in the public interest as that of the gas industry. P. G. Agnew, secretary of the American Standards Association, recently stated in a communication to R. B. Harper, who is the chairman of the A. S. A. sectional committee, Project 221, A. G. A. approval requirements committee:

> This work on gas appliances constitutes the most important job in the standardization of customer goods which has yet been done under the auspices of the American Standards Association and it seems to me to go a long way towards proving that such coöperative efforts are a paying proposition for producers, consumers, and utilities alike.

Incidental proof of the desirability of the association's system may be found in the degree to which it is being copied abroad. The Canadian Gas Association, of course, is actually affiliated with the American Gas Association and shares its facilities for testing, approval, and the formulation of requirements. Recently much interest in the American plan has been displayed by Australian, Russian, and Japanese gas interests, and it is possible that these countries will adopt procedures similar to ours in testing and certifying gas appliances. In Holland, Belgium, Switzerland, Denmark, Sweden, Poland, and France, programs for appliance certification are already in force. In all seven cases the programs have been set up since 1925 and in several particulars seem to have been copied from the American Gas Association's plan. Only in Great Britain and Germany is regulation of appliance construction and performance practiced in a manner dissimilar to ours. The American program seems to have pointed the way for the world.

The American Gas Association has reason for particular pride in the achievements of its laboratory, particularly during the past few years.

At a time when most industries were sharply curtailing expenditures, the association's facilities for

gas equipment testing have been extended and enlarged so that they might better serve the industry and its customers. The establishment of a completely equipped branch in Los Angeles, the instigation of a complete program of coöperation with the American Standards Association resulting in the publication of 24 sets of requirements as American standard, and the entry of the certification program in the gas appliance accessory field so completely that all important varieties of appurtenances may now be listed, are just a few of the accomplishments of this depression era.

In the brief span of one decade a unique program of continuing self-regulation in the consumers' interests has been conceived, launched, and perfected by the gas industry of the United States. That program has been startlingly successful. Its materialization and embodiment is in the testing laboratory in Cleveland and its branch in Los Angeles.

Foreign Countries Get Kilowatt Conscious

AN interesting Mexican experiment is said to have grown out of the "new economic tendencies of the Mexican government and its nationalistic aim for self-sufficiency." The general idea is to supply cheap electricity for light, heat, and power to members of a new coöperative in the city of Mexico and eventually in the central and southern portions of the Republic. The basis of the plan is to have every consumer a shareholder within the radius of the coöperative's operations, thus giving him a self interest in the success of the venture. Depending on such popular support, more than half of a $5,000,000 subscription has been paid in and ground has been broken in the heart of Mexico City for distribution from a 4,000 horsepower plant now nearing completion.

Flood control in North China and hydroelectric development will change the picture of deserts and famines, according to Major O. J. Todd, chief engineer of the China International Relief Commission. Already $25,000,000 has been contributed for a project to irrigate the Wei Pei district of Shensi and Suiyan provinces, and impounding surplus flood wastes. Plans involve harnessing the Yellow river which in the last forty-two centuries has been roaming all over the country. Teintsin, once on the banks of this river, is now 150 miles away. Some variations in the former river beds are as far apart as 400 miles.

The Bolivian government has signed a contract with the Hochschild Company for the construction of a vast hydroelectric plant at the celebrated Titicaca lake, 12,500 feet above sea level. The $25,000,000 job will take five years and includes the building of mineral smelters and irrigation facilities for neighboring agricultural areas. The plant will supply power, not only for all of Bolivia, including the electrification of her railroads, but also for neighboring countries. Because of a lack of coal in that territory, the hydro development is sorely needed.

Remarkable Remarks

"There never was in the world two opinions alike."
—MONTAIGNE

JUDSON KING
Director, National Popular Government League.

"It is high time for the folks back home to start some investigations of their own and not depend wholly upon Washington."

HAROLD L. ICKES
Secretary of the Interior.

"Illinois could have afforded to pay a pretty stiff price to have gotten rid of Insull. It might even have built him an Acropolis."

Editorial statement
The Columbia (S. C.) Record.

"If there is any abandonment of the Quoddy project, it seems a safe guess that it is not likely to occur until after Maine has cast its presidential vote in September, 1936."

HEYWOOD BROUN
Newspaper writer.

"The utilities have not only meddled in state and national legislative halls but they have corrupted colleges and have been a heavy factor in the impairment of the integrity of the news."

JOHN E. RANKIN
U. S. Representative from Mississippi.

"We can no more afford to compromise with the power trust that is now overcharging the American people $1,000,000,000 a year for electric lights and power than we can afford to compromise with a rattlesnake."

CARLISLE BARGERON
Washington newspaper columnist.

"Of course, signing messages to Congress with names taken from tombstones is unethical but it was not entirely unreasonable for utility men to assume that the folks interred in the graveyards would be opposed to a 'death sentence.'"

U. S. SENATOR
BURTON K. WHEELER
Statement as Counsel for Cuban Bondholders' Committee.

"The bondholders in whose behalf we have come to Cuba are largely investors of small means, many of whom have put their life savings into the public works bonds because of their confidence in the honor and integrity of the Cuban Republic."

EDWARD F. MCKAY
Manager, Oklahoma Utilities Association.

"In Russia government ownership, doing business in its own name of communism, has recently issued an edict making it illegal to advertise in any publication not owned and conducted by the government. Imagine American newspapers and magazines giving up all their advertising to the *Congressional Record*."

Prudence in Power Development

IT does not seem reasonable, in the opinion of the author, to build power plants now for war purposes on the assumption that a shortage of power would develop in the event of an armed conflict, and he holds that if they should be built they certainly should not be hydroelectric plants.

BY THOMAS T. READ

DISCUSSION of the New Deal program for the development of hydroelectric power, financed by government funds, and operated by the government, has been complicated recently by official assertions that existing facilities for power production are working so near to capacity that a serious power shortage would develop in the event of a need for a high rate of industrial production (hinting at the possibility of our becoming involved in another world war). People in this country are not very familiar with the technique of fox-hunting and so perhaps can be counted on not to notice the marked resemblance between this move of the Federal Power Commission and the action involved in the stereotyped phrase about "drawing a red herring across the trail."

The alleged possibility of a power shortage, like the red herring, is likely to be effective as a means of diverting attention, since the claim is based on a series of assumptions, and to controvert it the validity of these assumptions must be examined. Very few among the general public have the necessary technical knowledge to know what the assumptions are, or even to understand them when they are stated by someone who does know. They are consequently in much the same position they were when Dr. Cook claimed he had reached the North Pole and persons with an expert knowledge of arctic conditions claimed he had not; some people believed Dr. Cook and others did not.

THEREFORE it seems unwise to attempt any detailed technical analysis of the reasons for doubting or believing in the assertion that a seri-

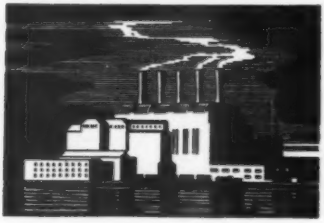
ous power shortage may develop in this country within a few years, an attempt for which I should have to enlist the coöperation of others more expert in the technology involved. But it does seem quite feasible to set forth some general considerations in an understandable way.

The first point is whether there is sufficient probability of our becoming involved in another world war to justify creating facilities for power production for use in its prosecution. The answer, I think, is no. When all the alleged reasons for our getting into the World War of 1914–18 are weighed they simmer down to a general American belief that Germany then had the will to conquer the world by force of arms and that if she succeeded in conquering Europe she would be in a position to attack us. It seemed probable that it would cost us less to help the Allies to defeat Germany than it would to defend ourselves against her later. Whether those beliefs were soundly based does not matter; we held them and we acted on them.

NOTHING in our experience since 1914 points toward the wisdom of our participating in another world war. The destructive effects of modern war are so great that a victor emerges impoverished almost to the point of collapse, while the fruitless attempts to make Germany pay the costs of the war against her demonstrate how impossible it is to gain advantage by a war of conquest in our world of today. Japan alone seems not to have learned anything from the world's experiences since 1914, but we are likely to be wise enough to resist the adroit diplomacy of those who would like to see us go to war with Japan. The possibility of our becoming involved in another world war seems remote.

But if we should engage in another world war, would a power shortage then arise? Was there a power shortage when we got into the World War in 1917? The answer again is no, I think. There was a fuel shortage, because the railroads were unable to transport coal as fast as it was being produced and consumed, but that was a transportation problem, not a power problem. It was an extremely complex transporting problem, involving the cross-hauling of raw materials, their fabrication, re-transport, assembly, and final delivery to seaports, with the need for haste making it essential to do work where existing equipment and labor made it possible, instead of doing it where the minimum of transportation would be required. I mean by equipment that for utilization of power, not generation.

STEAM power plants can be built as quickly as equipment to utilize their power they can be built wherever conditions are suitable for its utilization. A 100,000-horsepower steam plant was built at Muscle Shoals in the World War because it could be finished in six months, and it was known at the time that it would take ten years to build the dam. It was a waste of military power to start the dam in war time. It is now clear, and could have been seen then, that the proper place to build the nitrogen plant was in the West Virginia coal fields, near where the DuPonts have since built one.



Power for War Purposes

"The probability of our soon getting into another world war does not seem large enough to warrant expending capital in providing power facilities for such a purpose. If and when we do get into another war existing plants must be enlarged or new plants built for the manufacture of war materials."

That leads to the next point; if excess power capacity should now be provided, where should it be made available? If it is to be effective in serving war needs it should be where plants to use the power and men to perform the operations in the plants are available. But hydroelectric power now can only be generated at power sites which do not meet these conditions, else they would have been developed long ago.

The case against spending large sums of money in developing hydroelectric power does not, however, rest solely on the fact that the undeveloped power now remaining is at places where there is no existing market for power, and little hope of developing near-by centers of profitable large consumption, or avoiding the high cost of transmitting the power to places where it can be utilized.

Though only a few miles from the Capitol itself the Great Falls of the Potomac have never been developed, and never will be developed except on a political instead of an economic basis. Electric power can be produced from coal at Washington more cheaply than it can from the falls of the Potomac. It is not necessary to go into the technical reasons why that is true; that it is demonstrably true is evidenced by the fact that although it has often been proposed to erect a hydroelectric plant at Great Falls it has never been done. No clearer case of the fallacy of believing that where hydroelectric power can be developed, it is also wise to do it, could be asked for.

The argument can then be summarized as follows: The probability of our soon getting into another world war does not seem large enough to warrant expending capital in providing power facilities for such a purpose. If and when we do get into another war existing plants must be enlarged

or new plants built for the manufacture of war materials.

STEAM-OPERATED power plants can be built as quickly as the manufacturing plants can, and against the single advantage of having that much less to build in a time of national emergency is the economic waste of keeping the power plants standing idle for years until they are needed. For, make no mistake, they would stand idle; if a profitable occupation were developed for them in peace time it would not be practicable to terminate that activity in time of war. The war machine tries to interfere as little as possible with the normal activities of an economic group; it merely superimposes on them additional activities. There is no escape from the dilemma of either creating additional power facilities when a state of war arises, or of keeping the power facilities as idle as the army and navy, ready for the emergency when it arises.

If we choose what seems to me clearly the wrong horn of the dilemma, the building of power plants to be held idle as a preparedness-for-war measure, business prudence then dictates the choice of a steam plant. The reason must be self-evident; the interest on the high capital cost of a hydroelectric plant goes on whether it operates or not, the cost of fuel for a steam plant is all saved while it is idle. It does not seem reasonable to me to build power plants now for war purposes, but if they should be built they certainly should not be hydroelectric plants.

PRUDENCE in the power field does not simply warn against the construction of hydroelectric power plants for war purposes; it also indicates their basic fallacy from the standpoint of general well-being. The need of the moment is to distribute work among our whole population, so as to get people off the relief rolls. But when a 100,000-horsepower hydroelectric plant is built it thereafter gives employment to very few persons, whereas a 100,000-horsepower steam plant would furnish continuous employment for some 750 coal miners, give the railroads 150 train-loads of coal business annually, and produce power for a smaller cost.

What midsummer madness has overtaken the New Dealers, typically foes of technological unemployment, to make them adopt it as necessary corollary of their "forward-looking" schemes?

"IN recent years, men in high authority, who took a solemn oath to defend the Constitution without reservation or mental evasion, have eaten away vital portions of the Constitution, sometimes by super-subtle interpretation and sometimes by bald usurpation."

—JAMES M. BECK,
Former U. S. Representative from Pennsylvania.

Financial News and Comment

By OWEN ELY

Effects of Federal Regulation on Utility Stock Prices

While hopes regarding unconstitutionality of the Utility Act of 1935 may be somewhat of a sustaining influence with respect to prices of utility stocks, it may be of interest to compare such prices with those of companies or groups not subject to government regulation. The proper basis for such comparison would seem to be the respective ratios of price to earnings.

On August 23rd General Electric was selling at 52.5 times its 1934 earnings; exactly five years earlier, at almost the peak of the 1929 bull market, it was selling at 55.1 times 1928 earnings. This was despite the fact that General Electric is not a "pyramided" issue with growth possibilities enhanced by capital "leverage." On August 23rd du Pont (possessing only small leverage) was selling at 32.2 times 1934 earnings compared with a similar ratio of 37.2 in 1929. Union Carbide's ratio was 28.5 against 35.8 in 1929. The secret of the popularity of these stocks would appear to be (1) their growth possibilities, and (2) freedom from government regulation.

Railroad stocks (according to *Standard Statistics'* compilation) on August 23rd averaged 15.8 times earnings compared with 14.7 in 1929. These stocks possess plenty of "leverage." The relatively low level of prices in relation to earnings in both years seems due to the deadening effects of government regulation combined with the inroads of competing forms of transportation.

It is generally agreed that the electric power business continues to offer attractive growth possibilities, and current output is around record levels. Most of the sound utility stocks also possess considerable leverage due to outstanding bonds and preferred stock issues. Nevertheless, on August 23rd, nine stocks of representative utilities (only one or two of which should be much affected by Title I of the act) were selling to average only about half the ratio of five years earlier:

	Aug. 23, 1929 Price Times 1928 Earnings	Aug. 23, 1935 Price Times 1934 Earnings
Consolidated Gas	38.9	14.2
Commonwealth Edison ..	31.5	16.0
Pacific Lighting	32.3	15.4
Detroit Edison	28.5	22.1
Public Service of N. J. ..	36.6	14.2
So. California Edison ..	26.2	17.8
North American	39.0	21.2
American Water Works	47.8	15.5
American Gas & Electric	41.7	21.6
Average	35.8	17.6

It seems obvious, in the writer's opinion, that the relative decline in the popularity of the utility stocks is due to the uncertainties and intricacies of the new Federal regulation.

Standard Gas & Electric Co. to Reorganize

Standard Gas & Electric Co. on September 27th filed a petition in the

Federal court at Wilmington for reorganization under § 77B of the bankruptcy act. The necessity for reorganization had previously been indicated by the company's inability to obtain deposit of a sufficient proportion of the two issues of notes due October 1st, aggregating over $24,000,000. According to press reports less than half of the notes had been deposited, and a belated suggestion that stock of the Philadelphia Co. might be offered to noteholders apparently came too late to affect the issue. The original proposal was that noteholders agree to an extension for five years with continuation of the 6 per cent coupon. An independent protective committee headed by W. S. Kinnear, a former president of the U. S. Realty & Improvement Co., had recently issued a 9-point criticism of the extension plan proposed by the administration committee.

Three bondholders applied for reorganization of the company only a few minutes after the company had voluntarily applied to the Wilmington court. The petition demanded an investigation of Standard Gas Co.'s recent transfer of the stock of the H. M. Byllesby Engineering & Management Corporation to its operating subsidiaries, which step had apparently been taken because of the provisions of the Utility Act of 1935 with respect to management fees, etc.

"Some Financial Facts about the Bell System"

THE Federal investigation of the Bell Telephone System has not yet entered the "headline" stage. Meantime the Bell Telephone Securities Co., in its pamphlet "Some Financial Facts about the Bell System," has given excellent publicity to the company's record and ramifications.

Attention is called (in the pamphlet) to the fact that Bell System securities of more than $3,000,000,000 face value are now outstanding with a ready market, that the savings of over three quarters of a million men and women have built the System and that no stockholder owns as much as 1 per cent of the total stock. Of the 675,000 stockholders, over 250,000 own only 1 to 5 shares each. The stockholders are classified as follows:

Housewives	210,000
Bell System employees	105,000
Clerks and sales people	90,000
Professional and technical	40,000
Merchants	35,000
Manual laborers	30,000
Educational	25,000
Trades and farming	25,000
Personal services	25,000
Management and financial	25,000
Retired	25,000
Government employees	15,000
Total individuals	650,000
Trustees	20,000
Corporations and private firms	5,000
Total A. T. & T. stockholders	675,000

The company's stock has been sold to the public and its own stockholders at an average price of $114.40 per share. These sales, reflecting the traditionally conservative New England policy of stock financing, have doubtless been facilitated by the company's consistent dividend policy, A. T. & T. and its predecessors having paid at least $7.50 per annum for half a century. However, no stock dividends have ever been paid by A. T. & T. Since 1921 the rate has been $9, despite the fact that earnings during the depression have declined steadily to a current rate of around $6 a share.

IT seems likely that Federal investigators will have a difficult job to discover the slightest hint of scandal in the company's record. A possible indication that the inquiry thus far has proved slightly disappointing was the recent press rumor that President Roosevelt was seeking the services of Ferdinand Pecora (who conducted the celebrated Stock Exchange investigation but who has since "retired" from the SEC to the judiciary) to press the investigation.

It is possible, of course, that the government may seek to attack the company's accounting policy on the ground of

overconservatism. Instead of charging too little depreciation (as was the case with the Insull and a few other electric holding companies) it may be contended that 1934 deductions of about $172,000,000 for maintenance and $153,000,000 for depreciation (the total amounting to nearly 37 per cent of System gross revenues) were excessive. Nevertheless, excluding certain adjustments, the depreciation allowance in 1934 represented only 4.3 per cent of the cost of the average depreciable plant in service, indicating an estimated useful life of about twenty-three years, which seems quite reasonable. It might also be pointed out that Class I railroads of the United States last year expended nearly 31 per cent of gross for maintenance and depreciation, despite the fact that their rate of depreciation is very low as a percentage of plant and equipment. Similar figures for industrial companies are difficult to obtain. While the Bell Telephone System *may* have erred in keeping its properties in the best condition and providing amply for obsolescence, nevertheless such a policy, if purused by corporations generally during the depression, would have gone far toward stabilizing employment and lessening the extremes of the business cycle. A. T. & T. has also been very generous in its treatment of employees during the depression. Moreover, the maintenance of the regular dividend rate through the use of previously accumulated surplus has doubtless been of vast aid to the army of small stockholders.

Morgan Stanley & Co. Set Helpful Precedents in Initial Offerings

THE offering of Consumers Power Co. First 3½s of 1965 through a banking group headed by Morgan Stanley & Co., Inc., and Bonbright & Co., Inc., established a precedent in recent financial practice by distinguishing more sharply between the activities of underwriters and distributors. The underwriters' commitments were maintained until noon of the day following that of the offering, thus giving dealers a day and a half in which to make sales and take down bonds from the underwriters. This should prove a very helpful innovation in bond distribution, since all dealers are placed on an equal footing and those which can prove greater distribution than their original allotments can receive additional bonds, if available. In the past, arbitrary allotment of bonds by syndicate managers has frequently proven incorrect in relation to the sales ability of the various houses, with the result that such houses would "unload" their unsold bonds in the market after expiration of the syndicate agreement, with occasional disturbance to the market price of the issue. The new procedure, if generally adopted, may not entirely prevent maladjustments in distribution, but should be a decided improvement over the rather inflexible method formerly followed by most underwriters.

Another "new" practice inaugurated by Morgan Stanley & Co. was the elimination of the preliminary or so-called "red herring" prospectus (which bears a red legend printed diagonally across each page indicating that it was intended for purposes of advance information only and not to be used in connection with the sale of the securities).

IN accordance with the Investment Bankers NRA Code, now lapsed, it has been customary to distribute the preliminary prospectus in limited quantities to prospective members of the selling group or syndicate. Whether warranted or not there have been occasional recent suggestions that the "red herring" prospectuses were being used to effect advance sales to customers, thus "beating the gun." Possibly their elimination in this instance was due to a desire to avoid such criticism. On the other hand, it would seem that the preliminary information should be of value to dealers and potential investors, if properly used, within the limits prescribed by the regulations of the SEC.

Vice President Bonner of the Investment Bankers Association code committee, which is attempting to develop a substitute for the NRA code, made the following comment:

> Three-day provision had its good points and its bad points and has been a subject of debate since the beginning. Whether the action of Morgan Stanley & Co. Inc. will lead to its scrapping is hard to tell. There is a pretty unanimous feeling that the code was good in general principle and that a strenuous effort should be made to retain its good points.

Another proposed change in current practice, approved by Chairman Joseph P. Kennedy of the SEC before his recent resignation, is the inclusion of a condensed summary of the prospectus in newspaper advertisements of new offerings. The first descriptive advertisement of an important offering since passage of the Securities Act of 1933 is expected to appear early in October, when Morgan Stanley & Co. Inc. will probably offer an issue of Illinois Bell Telephone Co. bonds. Heretofore all advertising has been confined to a mere recital of the name and price of the issue, and a list of the underwriting houses, each ad stating that "the offering is made only by the prospectus." It is to be doubted whether many buyers of securities have taken the trouble to read the bulky prospectuses. The decision to include salient facts in the advertisement of new issues is a commonsense step, and the SEC's decision to gradually eliminate much useless detail in the prospectus is another step toward restoration of "normalcy" in investment banking—greatly needed if present refunding operations are to be followed by the desired program of new-capital financing.

New Financing—Past or Pending

RECENT financing, in addition to the successful Morgan Stanley offering of $19,172,000 Consumers' Power Co. First 3½s of 1965 at 99, included $49,000,000 Detroit Edison Refunding 4s due 1965 at 103½ to yield about 3.80 per cent, offered by a syndicate headed by Coffin & Burr, Inc.; and $20,000,000 Pacific Gas & Electric First & Refunding 4s of 1964 offered at 102 (plus accrued interest from June 1st) by a group headed by Lazard Freres & Co., Inc., on September 25th.

Following the pending Illinois Bell Telephone Co. issue, it is rumored that the Southwestern Bell Telephone Co. and the Ohio Bell Telephone Co. may be the next companies in the Bell System to offer new issues. Among other prospective utility refunding operations are the following:

Pacific Lighting Corporation on September 19th filed a registration statement covering $10,000,000 Debenture 4½s due 1945, the proceeds to be applied eventually to retirement of the Southern California Gas 5s due 1937. The issue will probably be offered October 8th by a syndicate which will include Blyth & Co., Inc., and Dean Witter & Co. A $500,000 annual sinking fund is to be used for purchase of the bonds in the open market at not above the redemption price.

American Water Works & Electric's subsidiary, Monongahela West Penn Public Service Co., plans to issue some $30,000,000 mortgage bonds and debentures (principally the former) for refunding and other purposes. Several West Virginia wholly owned subsidiaries are to be merged with the parent Monongahela Co., and further simplification in corporate relations is also planned. However, owing to the complicated nature of the merger and finance program, which will require approval by three Federal and two state commissions, some time may elapse before the new securities are ready for registration.

THE Middle West Utilities system, while still in receivership, is said to be considering refunding possibilities for some of its underlying issues, including some $19,200,000 Public Service Co. of Oklahoma 5s of 1957 and 1961.

Virginia Electric & Power Co. (Engineers Public Service Co. system) on September 27th asked approval of stockholders for a $40,000,000 bond issue.

Lehigh Valley Transit Co., subsidiary of National Power & Light (Electric Bond & Share affiliate) plans to pay 25 per cent cash on the $4,994,000 first mortgage bonds due December 1st, with a 10-year extension for the remainder of the principal at present coupon rates. Holders are requested to deposit their securities by October 15th, receiving prepayment of the December 1st coupons. Approval is necessary from regulatory bodies and holders of two thirds of the bonds; if proceedings under § 77B of the national bankruptcy act should be instituted before the plan becomes operative it must then await confirmation by the court. Four subsidiary bond issues maturing between July 1, 1936, and July 1, 1942, are also to receive 25 per cent payment with extension of the balance.

Central Maine Power Co. on September 20th filed a registration statement for not over $29,500,000 Refunding 4¼s due 1960 (underwriting details to be furnished by amendment). The registration statement contains the interesting proviso that the company shall expend at least 12½ per cent of gross for one or more of the following: (1) maintenance, renewals, or replacements; (2) extensions or acquisitions of new properties; and (3) retirement of the new bond issue or underlying obligations. In addition the corporation will pay into the sinking or improvement fund $200,000 a year until 1940 and $250,000 a year thereafter, subject to certain provisions.

The Dayton Power & Light Co. of Ohio (Columbia Gas & Electric Co. system) on September 23rd filed application to register $20,000,000 Refunding 3½s due 1960. Proceeds will be used to retire $18,000,000 Refunding 5s. It is reported that this financing will be followed by other refunding operations in the Columbia Gas & Electric Co. system.

Middle West Reorganization Plan Affected by "Death Clause"

SLOW-MOVING plans for reorganization of the principal Insull holding company, Middle West Utilities Co., under § 77B of the Federal bankruptcy law, may be further deferred by complications resulting from the utility act. Counsel McPherson of the Preferred Stock Committee has indicated that his group may withdraw from the plan because of doubts whether the stock-purchase warrants in the new company will be of any value (the creditor plan provides that stockholders may retain an interest in the company only through the exercise of subscription warrants).

Patrick J. Lucey, former Illinois attorney general and former receiver for Corporation Securities Co. (Insull Co.), obtained permission from the Federal court to intervene as a large stockholder.

Walter A. Shaw, special adviser to the court, has made a tentative appraisal of the properties at $50,000,000, said to be $20,000,000 short of creditor claims and solvency. A further report was expected early in October. The receivers' consolidated balance sheet as of December 31, 1933, indicated total system assets of over $562,000,000.

Department of Justice Seeks Supreme Court Decision on TVA

THE Department of Justice has announced that it will not oppose a Supreme Court decision on the validity of the Tennessee Valley Authority Act. The petitioners are minority stockholders of Alabama Power Co. in the territory where the district court of Birmingham had enjoined the company from selling to the TVA certain transmission lines leading from Wilson dam. The district court was reversed by the circuit court of appeals and August 28th

stockholders petitioned the Supreme Court for a writ of review. According to the government brief, two major issues are involved: (1) whether minority stockholders may sue to annul a contract of their corporation, on the ground that the contract was beyond the constitutional powers of the Authority; and (2) whether the Federal government may dispose of "surplus" water power "necessarily" created by Wilson dam, and may authorize generation of electricity and acquire transmission lines to facilitate disposal of such energy.

Consolidated Gas Co. of New York Attacks Municipal Power Plant Referendum

CONSOLIDATED Gas Co. of New York is opposing Mayor La Guardia's proposed municipal "yardstick" power plant both in the courts and "over the air." Justice Dore of the New York Supreme Court reserved decision September 25th on suits brought by associates of the Consolidated Gas Co. to prevent the referendum vote on the project November 5th. The plan of the city to create an authority to finance the proposed plan was criticized on the ground that state law does not permit the city to delegate financing powers to an agent.

President Deutsch of the board of aldermen, addressing the "Yardstick Luncheon Committee," contended that the city could today own the Consolidated Gas Co.'s electric system practically debt-free if in 1907 it had purchased the properties at a price representing the book value of fixed capital less "water," and had done its financing at 4½ per cent. Apparently Mr. Deutsch made his own estimates as to the amount of "watered stock." He also left out of account the city's record of mismanagement of its own financial affairs as indicated by the perennial budget problem and the gross extravagance in subway construction.

Presumably as an offset to propaganda by the mayor and Mr. Deutsch, Consolidated Gas is said to be contemplating a radio "good-will" program.

Electric Power Output Gains Sharply, Revenues More Slowly

ELECTRIC power output for the United States in the week ended September 14th showed a gain of 13.5 per cent over last year. The Rocky Mountain territory continued to make the best showing with an increase of 48 per cent over last year, while the Middle Atlantic section showed the smallest gain, 6.3 per cent. Mining activity and large Federal projects may account for the phenomenal showing in the sparsely settled Rocky Mountain territory. New England has recently shown improvement, current output being 16.8 per cent over last year; activity in the textile industry is doubtless a factor. The *Times* seasonally adjusted index now stands at 106.1, against an average of 100 for 1929–1930.

Due to rate reductions, etc., revenues for the industry in July (latest month available) showed a gain of only 3.2 per cent.

Traction Earnings Continue Decline

THE Brooklyn Manhattan Transit System, including Brooklyn & Queens Transit System, for the two months ended August 31st reported 37 cents a share earned on the common stock compared with 55 cents in the corresponding period last year. This indicated a continuation of the previous decline in earnings, owing to increased costs.

There have been no further recent developments in the tangled unification negotiations, and the New York Stock Exchange is apparently still pursuing its investigation of the charges made by Mr. Berle of undue activity in Interborough securities.

What Others Think

What's Going to Happen to the Holding Companies?

ASIDE from all the talk about the execution of the death sentence on utility holding companies, the fact remains that soulless corporations do not suffer death so definitely and finally as mortal human beings. If after some holding corporations have been killed off, we find that all the nice things said about them by their friends and advocates are true, and if we miss them so much and if things in general go from bad to worse,—well, Congress can always dig up the remains with statutory shovels and the law can breathe life anew into holding corporations who will then be ready to do business at the old stand. Corporations, in other words, can be justified after death and then resurrected. Unfortunately, such post-mortem vindication is unavailing for flesh-and-blood persons. As the epitaph of one unfortunate citizen read:

> Here lies the body of Johnathan Barr
> Run over by an auto car
> He was right—dead right—as he walked along;
> But he's just as dead as if he'd been dead wrong!

Writing in the *Journal of Land & Public Utility Economics*, at a time when the Public Utility Act was not yet law but very much anticipated, President Wendell L. Willkie, of the Commonwealth & Southern Corporation, gives us a general idea of what we might expect if, as, and when the Securities and Exchange Commission starts after the big utility holding companies with an ax in 1938 or thereabouts. Why did we ever have holding companies in the first place? Mr. Willkie tells us:

> The basic *legal* reason for the existence of holding companies in the utility and other fields of American business is the lack of uniform state laws concerning corporations. The basic *economic* reason is the desire of men and women, acting collectively through the instrument of a corporation, to develop as well as to diversify their investment of capital, both as to geographical location and variation of industrial or commercial activities. The foregoing reasons account, therefore, for the fact that 80 per cent of the corporations whose securities are listed on the New York Stock Exchange, for example, are holding companies or combination holding and operating companies.
>
> The Federal government also makes use of the holding company type or form in carrying on many of its activities and has not hesitated to take advantage of the laws of Delaware where so many nongovernmental business ventures are incorporated—as, for instance, the Electric Home and Farm Authority controlled by TVA by interlocking directorships. Such incorporation of two different lines of business activities makes for segregation of accounts, limitation of legal liability and, in general, good organization. Numerous other examples of the separate incorporation of Federal business activities could be cited but the practice and the advantages of it are too commonplace to warrant detailed discussion.

MR. Willkie goes on to tell us that holding companies are largely responsible (through efficient centralized financing and management) for the major strides made in our industrial production and distribution with the resulting improvement in our living standards. This, he claims, is especially true of the utility industries, and even critics of utility holding companies will hardly challenge the statement that the electric utility industry would never have attained its present status of growth and importance on the horse-and-buggy methods of financing and management that strictly local enterprises would have compelled. And what's going to hap-

pen when the holding companies begin to pass out (assuming that the courts won't object to their compulsory demise)? Mr. Willkie foresees that the safety cushion of diversity for investment and commerce will be destroyed. Segregated industrial units will be left alone to battle the onslaughts of economic adversity. We will back-track towards a nineteenth century era of business organization wherein each state will be "considered a foreign country in so far as ownership and use of property by its citizens are concerned, and regardless of the economic and social usefulness which otherwise would be rendered the public residing in the other 47 states."

However, Mr. Willkie is not certain that the people will ever let this come about. He hints that the fundamental common sense of the country will give rise to a reconsideration of the problem before the death sentence is enforced. He concluded:

> Holding companies in all lines of industry are now being threatened with extinction. Unless the business of the 48 states comprising the nation is to be confined to that of an intrastate character or unless uniform corporation laws are passed by all the states, what new device or legislation will be invented in order that business on a national or even a regional scale may be done without injury to the public through higher prices or inferior quality goods and services for what now makes up the American standard of living. At no time have I heard or read any sound argument that either cost of living will be reduced or standards will be improved by the breaking up of companies doing a large volume of business. This important omission is readily understandable to me, however, because once the public becomes cognizant of how these reforms, if enacted, will affect its welfare, short shrift will be made of the reformers and their experiments. I, therefore, rely upon public opinion as the great motivating force which will continue the existence of holding companies necessary under our present form of government and serving a useful purpose.

MR. James Mitchell is another writer who has been looking over the Public Utility Holding Company Act with grave misgivings. Mr. Mitchell, in his recent article in *The Annalist*, had some advantage over Mr. Willkie in that the former had the actual law before him while the latter was only guessing in fear and trembling (fears, incidentally, which turned out to be exceedingly well founded as far as the final draft of the law is concerned). Being a member of the New York Bar, Mr. Mitchell's mind naturally turns towards the legality of the act in question. In brief, he finds one glaring constitutional defect running like a red thread through most of the holding company act—the unlawful delegation of legislative authority. Mr. Mitchell is quoted as follows:

> It has been deemed expedient in the past to create commissions and bureaus which, together with executive departments, have been charged with the responsibility of administering congressional enactments and invested with the necessary powers. Where this investment has been judicially approved, the powers have been defined with all the precision that the circumstances appeared to admit. Rules and regulations with the force of law which these agencies have been empowered to promulgate have been for the more efficient execution of their principal's will.
>
> The Supreme Court has conceded a certain flexibility in the application of this principle in a complex society, but it has also intimated in unmistakable language that the Constitution has set its own bounds upon the delegation of legislative authority. It has refused to permit it to run riot, as was attempted in the unlamented National Industry Recovery Act. The Congress may not lightly disregard its own obligations and abandon the people to a New Tyranny to suit its own easy convenience.
>
> This act, in effect, constitutes the Securities and Exchange Commission the repository of arbitrary power to regulate, manage, control, and destroy an industry, subject to conditions so indifferently defined as to constitute no limitation at all. It is not only characterized by defiance of accepted constitutional principles in respect of the delegation of administrative authority, but is a complete break with the whole tradition. It is a subversion of the legislative processes, and is, moreover, one more manifestation of the bureaucratic preoccupation—the sacrifice of the ends for the means. Its implications have a far wider reach than the effects upon a single industry, however important that may be in the economic scheme. For tyranny is epidemic. Tolerated in one area it cannot be confined, but will inevitably spread throughout the entire economy.

The Charleston Gazette

PLEADING FOR HIS VICTIM

Mr. Mitchell finds a disregard of this principle as early as § 3 wherein the Securities and Exchange Commission is given authority to exempt from its jurisdiction, for various but uncertain reasons, holding companies which might properly be defined as such under § 2. He concludes:

> It will be seen from the foregoing that, far from defining the organizations which shall be subject to the jurisdiction and control of the commission, the statute actually throws all utilities into a single category and confers authority to make such differentiations as it may please. No company, whether exclusively intrastate or not, is without the field of this attempt at Federal control, and the extent to which it will

be projected into the affairs of other corporations which are not utilities is left in the form of a question mark.

Similarly, Mr. Mitchell finds fault with the registration, bookkeeping, and security issue provisions, the regulation of contracts and the duties of company officers and directors under the act. Oddly enough, however, Mr. Mitchell fails to single out the "death sentence" (Section 11) for any special condemnation, but it is apparent that he has little faith in the constitutionality of the utility law.

—E. S. B.

THE FUTURE OF THE HOLDING COMPANY. By Wendell L. Willkie. *The Journal of Land & Public Utility Economics.* August, 1935.

UTILITY ACT REPLETE WITH UNCERTAINTIES, OBSCURITIES AND ARBITRARY POWERS. By James G. Mitchell. *The Annalist.* September 13, 1935.

Two Views on Public Ownership in Canada

WITH all the rumors about Ontario Hydro Electric going into the red because it finds itself so loaded up with surplus power that it must repudiate its contractual obligations to keep afloat, friends of this often used exhibit of successful public ownership will find considerable encouragement in the 1934 report of the Ontario commission. President Judson King, of the National Popular Government League, long an American champion of the Ontario plant, recently reviewed this report in a bulletin which was reprinted in the *Congressional Record.* It states in part:

> This bulletin has been delayed until the 1934 report was available. These data show that notwithstanding the depression, then in its fifth year, domestic consumption has increased and average costs have consequently lowered, while assets have grown and liabilities diminished. So that, whereas these municipalities as a group were in debt 77.1 cents on each dollar of assets in 1913, and 20.4 cents in 1933, their debt was lowered in 1934 to 16.9 cents. This is the final answer to the charge of "failure of self-liquidation."
>
> But note that while the liabilities are nearly $31,000,000 the reserves and surpluses total over $46,000,000, and in many instances these surpluses far exceed the book liabilities. The municipalities would buy the outstanding bonds, but the investors won't part with them in many cases, since they are too safe an investment. . . .
>
> Commercial and industrial and municipal rates show like reductions and increase in use, as well as domestic rates.

Explaining why the Quebec contracts for supply from private companies were canceled by the Ontario commission, Mr. King stated:

> The Liberal Legislature of Ontario, when it came to power, passed an act canceling the contracts for wholesale power made in 1930 by the former Hydro Commission under the aegis of the Conservative administration. This act has not yet been signed by the lieutenant governor, but doubtless will be, and it is rumored that an arrangement is being considered whereby the Hydro Commission will take from these private companies only such power as its needs justify. The Dominion Government has acquiesced in this act of the Provincial Legislature, thereby admitting its validity.
>
> In the opinion of this writer, this action is a splendid demonstration of the intelligence and courage of the citizenship of Ontario, and of their capacity to democratically control their utility. The Hepburn government, in passing this act, was carrying out an overwhelming mandate of the people. Only the briefest resumé of the situation can be given here.

Mr. King goes on to explain that the contracts were executed during a period when the political management of Ontario Hydro was not up to the average high standard, or at least the manager did not appear to have exercised the good business judgment that the late Sir Adam Beck, father of the Ontario

Hydro would have exercised. However, recent political changes have once more put the Liberal party in power in Ontario. Mr. King concludes:

> An entirely new commission was appointed, at the head of which was placed Hon. T. Stewart Lyon, who enjoys the confidence of the people of Ontario as to his integrity and ability and devotion to Hydro. Mr. Lyon, as editor of the *Toronto Globe*, was a close personal friend and adviser of Sir Adam Beck from the beginning, and all through the struggle against private interests when Hydro needed honest newspaper support. He had retired but was called into service. Under Chairman Lyon, Hydro has returned to its old policies and is forging ahead. It is in an exceedingly sound financial condition, and all the more safe because it is now freed from the contracts entered into by the former commission, which, to say the least, entirely misjudged the effect and the duration of this depression.
>
> To interpret such an episode as a refutation of the people of Ontario of the principle of public ownership, and to magnify two or three deficits into a major disaster without giving the true financial status of the Hydro's affairs, is simply one more evidence of the utter disregard for truth and common fairness exhibited by the controlling factors of utilities in the United States.
>
> The true financial status of the commission, which controls the wholesale end of the enterprise, will be evident to any person who will take the time to consult the condensed balance sheets for 1933 and 1934.

BE that as it may, there are some disbelievers in government ownership yet remaining in Canada. The following editorial was published as late as September 18, 1935, in the independent Liberal daily, *The Montreal Gazette:*

> One of the grounds on which Mr. Aberhart, the new Premier of Alberta, is seeking a loan of large proportions from the Dominion Government—conveniently ignoring the availability of his alleged Social Credit reserve in the premises—is that his province has lost heavily in the operation of its state-owned telephone system. The facts in that regard were given in these columns some eight or ten months ago. They disclosed a condition of grave disorganization, of a difference of many millions as between the primary cost of plant and its present value, of the extinction of a once substantial sinking fund by withdrawals for other purposes than the payment of liabilities on capital account, and of a persistently heavy annual drain on the resources of the hard-pressed province because of revenues wholly inadequate to make one hand wash the other. These results the *Edmonton Journal* very positively attributed to the association of politics with the administration of telephone services. A similar situation, differing only in the degree of disaster, has arisen in Saskatchewan and Manitoba, where public ownership of telephone systems had also been given effect. It is instructive to observe that coincidentally the three eastern provinces of Nova Scotia, New Brunswick, and Prince Edward Island had entrusted their telephone requirements to corporate bodies, and that each corporation has been able to earn a fair return on capital investment throughout the intervening years.
>
> It would be folly to ignore the plain teaching of experience, which is always better than theory. Ontario plunged heavily into state-owned hydroelectric services, and is today counting the cost in terms of grave apprehension for the security of the province. The Dominion embarked eighteen years ago on a huge scheme of railway nationalization, and is at this moment confronted by the consequence of deficits which exceed a billion dollars. In both these instances there was extensive political interference and manipulation. In the case of the Canadian National Railway the royal commission which sat in 1932 found that this malignant influence had brought about "unwise and unnecessary expenditures" on an enormous scale. In both cases the undertakings had been begun with alluring promises of service at cost to the people served. Primary expectations in both Ontario and Alberta have not been realized. Far from it.
>
> It might be argued that these failures do not necessarily discredit the underlying principle of public ownership; and that may be cheerfully admitted without in the slightest degree altering the obviously logical deduction. That deduction is that public ownership, when administered by a political body, always becomes political ownership; and that political ownership invariably makes a mess of things. Even the most ardent defender of public ownership should frankly confess that the people are owners only in the sense that they pay the bills. They have no voice in management nor in policies. Their ownership is a grotesquely theoretical thing; yet it has apparently been sufficiently effective in the case of railway nationalization to paralyze the instincts of self-preservation. That is to say, notwithstanding losses which are averaging $100,000,000 a year, and the inescapable implications of such a frightful drain on our resources, the people are not bestirring themselves in a general way in the matter of corrective action, nor is government. If the same situation had arisen within a corporation the stockholders would long ago have effectively asserted their judgment.

Of course, the fact that the *Gazette* comes from the Quebec side of Beauharnois Falls may have something to do with the difference of opinions expressed.

—E. S. B.

BULLETIN. No. 174. August 21, 1935. National Popular Government League. Takoma Park Station. Washington, D. C.

TESTING PUBLIC OWNERSHIP. Editorial. *The Montreal Gazette*. September 18, 1935.

Rural Electrification: Farmers Cry for It

RURAL electrification, as a general principle, is one of those things like social security and stablized currency against which a reasonable man just cannot argue. Of course, it would be a desirable and commendable thing to have our farmers enjoy the great boon of electricity. It is only when some folks begin to ask "how much will it cost?" or "who will handle the thing?" that disagreement enters into the picture. However, keeping the public in a receptive frame of mind on the general subject is an important angle that those who are charged with the responsibility for putting over the administration's rural electrification program should not overlook—nor have they overlooked it. The Rural Electrification Administration at Washington seems to be equipped with a publicity department as industrious and enterprising as some of the publicity bureaus of larger and older governmental units even though, to oversophisticated observers, its output may seem slightly tinged with *naïvete*.

REA Press Release No. 27 was designed for Sunday newspapers of September 15, 1935. It consisted of a collection (in all, about 1,200 words) of letters from farmers received by REA officials and others, including the "President and Mrs. Roosevelt," which reflect "the hardship and sometimes tragedy that underlie the movement to take electricity to American farms." The sympathetic REA publicity man explains the collection as follows:

> Many of these letters tell of the broken health of farm women, due to drudgery that could be relieved by simple electrical equipment; of the hardships of fetching and carrying water, especially where one or more members of the household are crippled or sick, and of parched and deserted lands that might be reclaimed for homes by pumping water, electrically, to irrigate them.

HERE is a paragraph in a letter from an Ohio farm woman addressed to Mr. Roosevelt:

> Just think of the thousands of rural women whose health is being broken down and are filling premature graves, because of drudgery which could in some measure be alleviated by electrifying rural America.

A letter from Massachusetts to the President stated:

> I am a crippled boy of sixteen who has a hard time walking about. Our well is 200 feet away from our home and I have to climb a little hill to bring water to the house. My mother can't carry water because she is a very sick woman. If we had the electric we could have an electric pump put in our house. . . .
>
> It would be nice to have electric so we could use our radio to listen to your speeches and listen to news from the world and our country. We would have better lights, too, since you know oil lamps are not very good for our eyesight.

A spokesman for a group of farmers from "storied Ulster county, New York," stated in part:

> Many of our rural folk have suffered much, owing to lack of modern light and communication. We demand that our children be in step with the times. We cannot have radios due to lack of electricity.

An Oregon man believes electricity would help populate some of our deserted farm homesteads. He stated:

> We live in a small valley in central Oregon. . . . There is at least 75,000 acres of land in this valley. It is nice soil

St. Louis Globe-Democrat

THE POLITICAL LABORATORY'S VICTIM

and most of it is level enough to till. It would be easy to clear. Practically all of this land has been homesteaded and deserted. It is owned by the counties which have taken it over for taxes.

The only reason this valley is not a successful agricultural district is because there is no water. Yet there is an abundance of water under ground. . . . If this water could be put on top, we could raise hay, all kinds of grain, all kinds of small fruits, apples, sugar beets, or any of the crops grown in the northern states. . . . Gasoline pumping is too expensive and uncertain.

It is our belief that if we could get electricity into the valley, we could pump water and save our homes. With electricity at reasonable rates we could make good livings. I know personally a number of

families who would move into this valley at once if we had power, and I have no doubt that the entire valley would soon be settled.

A NUMBER of other excerpts were included in the REA press release, some from farm mothers pleading for their children's eyesight, some from farmers pointing out the practical advantages of power on the farm. As if in answer to all this, the release concludes with a statement by M. L. Cooke, REA chief:

> We cannot, of course, provide electric service for a single isolated farm home. Where a group of substantial size can be interested, however, and conditions are such as to make a self-liquidating project feasible, we will be glad to make a loan for the entire cost of construction of a rural power and light line.
>
> We stand ready to lend to public bodies, farm coöperatives, and utilities, normally for a 20-year period and at 3 per cent interest, so that they may provide electric service for those who are so much in need of it and so eager to have it.

It is this aid to agricultural growth that may cause some economic complications. Few could begrudge, even perhaps at the cost of a subsidy from the Federal treasury, enough electricity to light up farm homes to save children's eyesight, and to pump enough water to provide for inside plumbing, thereby avoiding the necessity for farm mothers and children (crippled or sound) to pump and fetch it by hand. Radios in farm homes do a great deal of good also. But such a comparatively meager use of electric current would cost, on an average, a great deal per unit consumed. What would really help the farmer and cut down his power cost would be a greater amount of consumption. This, in turn, would increase agricultural production. This in turn puzzles Raymond S. Tompkins, writing in *Electrical World*. He recalls that the Committee on the Relation of Electricity to Agriculture has been wrestling with this problem ever since 1931. Commenting on the committee's findings, Mr. Tompkins stated:

> It appears that in practically every case electricity on the farm promotes not the "economy of scarcity" sanctioned by the disciples of "the more abundant life," but the "economy of plenty," which is the hated fetish of those who believe in producing for profit. Not only were infant pigs being conserved by heated pigpens, but milk supplies were being increased by electric milkers, electric cow-fans, and electric fly-traps; electric lights were making hens lay more eggs; electric incubators were producing more chickens; electricity was refrigerating fruits and vegetables; cooking the insect pests from bulbs, irrigating unproductive lands; in short, increasing every conceivable product of the farm, from the wheat and corn which it saved by irrigation and insect control, to the butter and cheese it produced in the farmers' pantries. To say nothing, of course, of the increased production made possible in the farm kitchens, where the farmers' wives and daughters could turn out more and better pies in their electric ovens and the increased energy and health for everybody on the farm resulting from electrically improved opportunities for refreshing hot baths after hard days in the fields.
>
> This tendency seems not to have declined as the years went on, but to have increased, until just before the dawn of the New Deal era it had reached its peak. It was estimated in 1932 that about 1,000,000 American farms were electrified. On all of them electricity was working away for dear life (on some more than on others, of course), making two quarts of milk, two eggs, two chickens, two bushels of wheat, and two pigs grow where only one of each had grown before. How the new National Rural Electrification Administration is going to put a stop to this, while at the same time extending electricity even to sections where it costs $10 to send a farmer a postcard, is one of the jobs everybody will watch with great interest.

MR. Tompkins does not deny that rural electrification is a good thing for the farmer. He believes the electrical industry should be thankful for the New Deal for giving the movement such a big boost. He recalls, however, that rural electrification has been going on for some time without Federal aid and that "electricity has been nothing like as slow in going out to meet the farmer as his roads, his public water supply, and his sewer service." Mr. Tompkins adds:

> Today, New Deal publicity bureaus to the contrary notwithstanding, virtually any farmer in the United States can have electricity. He cannot, of course, get it for nothing. But the idea that he will have to

pay outrageous and unfair rates for it is as unfounded as the idea that no distributing system makes it available to him. Transmission lines now extend from generating stations to substations in virtually every city, town, and village of more than 1,000 population in the United States. From these stations rural lines reach the farms.

These rural lines serve about 2¼ million customers. Of course they are not all farmers. Nearly two thirds of them live in the little villages that nestle in the green farm valleys. But how this rural and farm light and power business has grown! In 1923 only 177,000 farms were electrified in the United States. This was only 3 per cent of the total. By the end of 1933 more than 710,000 farms were electrified, an increase of more than 400 per cent in ten years. How was this accomplished? By grabbing the farmer by the scruff of the neck and cramming electric gadgets down his throat at prohibitive cost, whether or not he needed them and could pay for them? By ignoring him as a stupid fellow too steeped in cowdung and misery to know an electric light bulb from a goose's egg? No, this increase of more than 400 per cent in rural electrification in the United States in ten years was accomplished by mutual recognition between the farmer and the electrical industry of the fact that electric service on the farm meant better business for the farmer and better business for the industry. It was accomplished by salesmanship and promotion.

Even so, the power and light people, says Mr. Tompkins, didn't expect to get all the farms in the country electrified and, in truth, neither do the New Dealers.

—F. X. D.

Rural Electrification Administration Press Release No. 27. September 9, 1935.

The Electrified Farmer in the New Deal Dell. By Raymond S. Tompkins. *Electrical World.* September 14, 1935.

Other Articles Worth Reading

Another Blow to Utility Regulation. By John Bauer. *National Municipal Review.* August, 1935.

It appears that Dr. Bauer is very disappointed with the Maryland Bell Telephone decision.

Are We Solving the "Power Problem?" By Raymond S. Tompkins. *Electrical World.* August 3, 1935.

Does It Pay? An analysis of rural electrification. By C. E. Greenwood. *Edison Electric Institute Bulletin.* August, 1935.

Functions of the Federal Communications Commission. Address by Albert E. Stephan. Institute of Public Affairs, University of Virginia. July 12, 1935.

Grand Coulee Dam. *Engineering News-Record.* August 1, 1935.

Three interesting articles in this magazine issue cover the various angles of a ten months' program of construction at Grand Coulee and outline for future prospects.

How Truck Regulation Will Affect the Railroads. By Ralph L. Woods. *The Magazine of Wall Street.* September 14, 1935.

Is the Texas Gas Pipeline Project Feasible? *The Texas Weekly.* August 31, 1935.

New Deal Proposed in Rural Electrification. *Electrical World.* July 6, 1935. Interview with Morris L. Cooke.

Politics from Pacific to Passamaquoddy. By Glenn Marston. *Public Service Magazine.* August, 1935.

PWA Has Helped Sewerage Construction. By Henry W. Taylor. *American City.* August, 1935.

Regulating the Utilities. By Allan G. Mitchell. *UGI Circle.* Publication of the United Gas Improvement Company. August, 1935.

Rural Electrification—Possibilities and Limitations. By Hudson W. Reed. *Industrial News Review.* August, 1935.

Shackles for the Utilities. By Herbert Lawrence. *Barron's.* September 16, 1935.

Shenanigans of the Power Lobby. By Paul W. Ward. *The Nation.* August 28, 1935.

Water Department Handicapped by Free Services and Unpaid Bills. By William Trottier. *American City.* August, 1935.

Who Pays Your Taxi Fare? Discussion of the cut-rate taxi problem. By Gove Hambidge. *Transit Journal.* August, 1935.

Who Said States' Rights? By Howard Lee McBain. *Today.* August 17, 1935.

The March of Events

Nations Invited to Power Conference

THE State Department on behalf of President Roosevelt has extended invitations to the nations of the world to send delegates to the third world power conference to be held in Washington from September 7 to 12, 1936; and to the second Congress of the International Commission on large dams to be held concurrently.

The proposed subjects recomended for consideration at the world power conference are "The National Power Economy; fiscal and statistical bases; technical, economic, and social trends; organization of fuel industries and of gas and electric utilities; public regulation; national and regional planning; conservation of fuel and water resources; rationalization of distribution; national power and fuel policy."

FCC Scrutinizes Holding Companies

INITIAL steps toward a searching scrutiny of holding companies whose interests extend into the communications field were under way last month by the Federal Communications Commission.

Acting under a section of the communications act not previously brought into play, the commission has drafted and forwarded to 92 holding and other companies annual accounting forms for complete information on their operations and financial set-ups.

One of the most far-reaching steps taken by the commission since its organization a year ago, the action reaches a wide variety of corporations whose primary fields are far removed from communications systems.

Included in the list are steamship lines, coal and oil operators, steel corporations, railroads, and tire manufacturers.

The companies will be required to submit to the commission the names of their officers and directors, names of their thirty largest stockholders, information on their investments in communications systems, the extent of their control over these agencies, and extensive data on dividends, surpluses, income, and upstream and downstream loans between the parent companies and their communications carriers.

The full report, covering operations last year, was to be returned to the commission before October 15th. The report for this year must be in the hands of the commission by March 21, 1936, which hereafter will be the annual return date for these forms.

The forms have been prepared in two drafts, one for use by corporations whose annual incomes exceed $50,000, and the second for those with smaller incomes.

Forty-six of the holding companies to which the forms have been sent are primarily interested in the communications field. They include the International Telephone and Telegraph Company and its affiliates and some forty-five independent telephone holding companies. About forty-six others included in the list have communications subsidiaries which have gross annual incomes below $50,000.

Prominent among those which have been singled out by the commission for annual reports are two Van Sweringen holding companies and two railroads over which the Van Sweringen brothers exercise control. These are the Alleghany Corporation, the Chesapeake Corporation, the Chesapeake and Ohio Railroad Company, and the Pere Marquette Railroad Company. The commission is interested in these companies because of their association with a radio corporation which is operated in connection with the Lake Michigan car ferry service.

The steamship lines, oil and steel companies, and tire manufacturers ordered to report were selected because of their investments in radio and telegraph systems used in the course of their primary operations.

Petition Filed under Bankruptcy Act

STANDARD Gas & Electric Company, one of the major utility holding companies in the United States, unable to meet a $24,649,500 maturity of debentures on October 1st, filed a petition for reorganization under § 77-B of the Federal Bankruptcy Act.

There seemed little doubt that the possible effects of the Federal utility legislation on companies of the type of Standard completely discouraged any interest in a refinancing undertaking, which had been under consideration. This forced the company to apply to debenture holders for an extension to 1940. The response, however, was inadequate, leaving § 77-B the only alternative.

As of the date of the petition around $13,000,000 of the maturing issues were deposited under the plan for extension which the company has asked the court to accept as a plan of reorganization.

The present management will continue tem-

porarily in charge of the company under order of the court which also authorized the company to continue the solicitation of the deposit of notes under the plan. October 25th has been set for the appointment of trustees.

British Rural Telephony

OUTLYING rural areas in Britain are to be connected to the telephone system, and 11,000 subscribers are to benefit from lower phone charges under new schemes being put into operation by the post office at London.

The present system whereby a village must have a post office to have a public telephone is to be abolished. Instead, any hamlet or isolated parish will be able to be connected to the telephone system of Britain, provided the local parish council will pay a charge similar to five years' rental of a private line.

The post office makes a charge for installing these rural phones in cases the annual number of calls is not sufficient to pay for the installation and maintenance of the call box and the wires. In October the first new telephone rental charges come into operation, giving relief to the subscribers. The area around the telephone exchanges within which the standard rental charges apply was to be widened from 2 miles to 3.

This will bring almost all the telephones in Britain within the standard rate area. There are 11,000 subscribers at present paying extra charges. The post office calculated that 10,000 of these will be relieved of all extras, and that the remaining 1,000 will have their annual rentals reduced by from four to eight pounds.

Utilities to Fight "Holding" Law

THE intention of the public utilities industry to fight the public utility act to the last ditch was impressed upon members of the Securities and Exchange Commission September 25th in a 2-hour conference, during which representatives of the industry pledged their coöperation in "the working out of the administrative policies set forth by the act."

Judicious coöperation was the keynote of the first official meeting of the heads of utility holding companies with the Federal agency that, under the most bitterly fought enactment of the last session of Congress is directed to bring about their dissolution as soon as practicable after 1938.

It was emphasized in a joint statement on behalf of the SEC and conferees that an understanding had been reached whereby the visiting group waived none of its constitutional or other legal rights directly or indirectly by the conference and projected conferences. Spokesmen stressed further that the industry intended coöperation with the SEC solely to avoid evils that might result from the lack of it.

The only tangible result of the conference, according to those participating, was a general approval by the industry of a proposed form of preliminary registration of holding companies sent out on September 17th and which set forth various requirements governing information to be submitted with the registration statements.

When asked concerning the meeting, the conferees said:

"Well, we all have to die but we may as well enjoy life while it lasts."

Other conferees said that provisions of the act directing the dissolution and integration of holding companies was not reached during the discussions, which all agreed were primarily "exploratory." It was agreed that a "representative working committee" would be created for further conferences with the commission.

The meeting had been called by the SEC to go over with utilities representatives the forms setting forth information to be required in connection with the preliminary registration and applications for exemptions from the provisions of the law. Conferees for the industry said the meeting was far more general in scope and might be described as a "poker game in which no one won much money."

The joint statement issued on behalf of both the SEC and the industry after the conference follows:

"The Securities and Exchange Commission (Chairman Landis and Commisssioners Mathews, Healy, and Rose) conferred today with the following representatives of the leading utility companies: Fred C. Burroughs, Associated Gas and Electric Company; Frank D. Comerford, New England Power Association; James F. Fogarty, North American Company; Daniel C. Green, Middle West Utilities Company; William J. Hagenah, Standard Gas and Electric Company; W. Alton, Cities Service Company; Randall J. Le Boeuf, Jr., American Gas Association, United Corporation, Niagara Hudson Power Corporation; Sam W. Murphy, Electric Bond and Share Company; H. Hobart Porter, American Water Works and Electric Company; Garfield Scott, United Gas Improvement Company, and Wendell Willkie, Commonwealth and Southern Corporation.

"The conference related to general questions underlying the administration of the public utility act, and also to tentative rules and regulations concerning exemptions and registrations which the commission had prior to this time given to the utility industry for criticism.

"It was stated both by the commission and the representatives of the utility industry that any constitutional or other legal rights of the companies were not to be waived or prejudiced by this or subsequent conferences between the commission and representatives of

the companies in their endeavors to work out together the problems involved in the administration of the act, nor would the commission by its registrations seek to bring about any waiver or prejudice of these rights.

"The representatives of the utility industry, subject to this understanding, indicated their willingness to aid the commission in the working out of the administrative policies set forth by the act, and to that end, a representative working committee of the utility industry is to be created to be available to the commission for consultation on such problems as may occur from time to time."

Justifying the apprehensions of some SEC officials that it would be unable to complete preliminary registration of all utility holding companies by December 1st, as required by the statute, was a prediction of attending utility heads that a large number of companies would apply for exemption from the registration requirements.

The commission is permitted in its discretion to waive the registration mandate under certain circumstances and is directed to grant such exemptions wherever requested until, after public hearing, a finding is made to the contrary. Some of those at the conference said that, in view of the large number of expected exemption applications, it would be impossible for the commission to complete even preliminary registration by December 1st.

While the text of the preliminary registration form was being closely guarded from publication on directions from the SEC it was ascertained that the information it directed to be submitted went somewhat beyond the scope of what observers had expected.

It was understood that conferees for the industry had been influenced in their informal approval of the tentative form by the consideration that the commission was in a position to do considerable damage in the holding company field, particularly where service companies were concerned, if the industry appeared recalcitrant and inclined to challenge the commission's every action.

Among the items required to be contained in the preliminary registration statement were the total principal amount of funded debt outstanding on the books of each reporting company but not the various issues comprising that debt; the securities held in the treasuries of reporting companies to secure other issues of the same issuer, and the same number of shares of every class of stock outstanding.

It would be required in the latter connection that the total par or stated value of every class of such stock be reported, together with the names of the issuing subsidiaries. The number of shares of voting stock of each class held by various companies in the holding system, with the name of the holding concern, also would be required.

It is understood that the commission will not require the preparation of special maps and charts setting forth intercorporate relationships of registering companies but that such information will be required in a formal report prepared by the companies.

"Reasonably complete" maps and charts also are to be demanded showing the location of electric transmission lines and generating stations. In the case of gas companies, the location of producing fields, manufacturing plants, and transmission systems, would be required, it is said.

Officers and directors of registering companies must give the names of subsidiary companies in which they hold positions, with the position designated in each case, it is understood. Each company would be required to give the name of the state or "sovereign power" under the laws of which the registrant was organized or created.

Provision is understood to have been made in the preliminary registration form for withholding reported information from public inspection for cause shown. Registering companies could apply for consideration of their data as confidential on the ground that their disclosure was unnecessary either in the public interest or for the protection of investors or consumers, but the SEC could order a hearing to determine the merit of such applications.

The conferees for the utilities industry were reluctant to discuss the legal aspects of the situation or the basic validity of the holding company law except to say that all such matters had been turned over to John W. Davis and to predict that at least a year and a half would pass before the constitutional question had been disposed of.

They said that meanwhile they planned to coöperate with the SEC in working out administrative policies in the hope that leniency would be characteristic of the rules and regulations promulgated by the commission with respect to holding companies.

So far as could be learned, no information came out at the conference to indicate to the commission the exact program that the utilities' interests plan to follow in bringing about a test of the constitutionality of the act. One case was instituted on September 6th before Judge William C. Coleman of the Federal district court in Baltimore by the American States Public Service Corporation. John W. Davis, as representative of a debenture holder, consulted then with James Piper of Baltimore, counsel for the company.

The SEC's legal staff has been studying the angles of the case in which the constitutional powers of the commission to compel registration are challenged, but no announcement has yet been made whether the SEC will intervene and present its side of the argument. The case was set for hearing on September 27th.

The company, which has subsidiaries in Western states, contended that registration would place a heavy burden on its security

holders and force the abandonment of a plan of reorganization, with consequent loss.

Whether the utilities whose representatives met with the commission will register was another point not cleared up. In most cases it is probable that the final decision must await determination by boards of directors on the most strategic policy to pursue.

The objective of the utilities executives at the conference and those to follow is to coöperate to the extent that a temporary registration form and regulations under which exemption may be claimed, may be worked out on a basis which will place the lightest burden upon them, whatever decisions they make.

President Studies Rural Power

PRESIDENT Roosevelt, before his recent departure from Washington, conferred with various government officials concerned with rural electrification on the administration's program in that connection.

Morris L. Cooke, Rural Electrification Administrator, said that progress has been made in the work and praised private industry for its "marvelous response" to the program. The industry is not waiting for the government but is going right ahead themselves, he said.

Jesse Jones, RFC chairman, said that the question of RFC aid to the program in financing rural electrification was taken up. He said procedure will be to make loans to the Electric Home and Farm Authority which in turn will lend to the farmers wishing to electrify their homes and property.

Rural Power Aids Coal

FAVORABLE news for coal miners and operators was seen by George J. Leahy, chairman of the National Job Saving and Investment Protection Bureau for the coal industry, in plans of Morris L. Cooke, director of the Rural Electrification Administration, to use a large share of the $100,000,000 fund for rural line extensions from existing steam plants.

Leahy made public a letter from Cooke in which it was stated that the REA prefers and expects to utilize existing sources of energy instead of creating new ones. While saying it would be impossible to discriminate against Federal hydroelectric developments, Cooke said that because the greater share of electric power is generated in steam plants, most of the extensions will increase demands upon these plants.

Leahy estimated complete rural electrification connected to coal consuming generating plants would require annual use of 6,000,000 additional tons of coal, giving employment to 7,500 coal miners and more than 3,500 railroad employees.

Alabama

TVA City Claims Profit

THE first year's operation of the municipal light plant under the Tennessee Valley Authority meant a net profit of $6,501 despite a 45 per cent reduction in rates, Mayor R. H. Richardson, Jr., announced.

The report for the fiscal year points out the net profit was accumulated after $3,293 was charged off for depreciation and $2,332 for taxes.

In answer to recent comment that Athens was dissatisfied with TVA current, Mayor Richardson said the May revenues were 20 per cent higher than the same month in 1934 before TVA current was brought in. Domestic current has increased 200 per cent, he added, while commercial use has increased 83 per cent.

Athens took advantage of TVA rates, the report adds, and led all other cities in the purchase of electrical appliances. Expenditure of $70,000 represented purchase of 289 refrigerators, 131 ranges, and 64 water heaters.

Prior to installation of TVA current the municipal system purchased current from the Alabama Power Company.

Farm Power Doubled by TVA

DOUBLED use of electric service by farmers on the TVA rural lines adjoining Wilson dam in Alabama was reported by the Tennessee Valley Authority.

These rural lines, constructed within the past year, now serve 379 rural customers in Lauderdale and Colbert counties. Although many of them live within sight of Wilson dam, they were without electric service of any kind before the building of the TVA lines.

Records for the past six months indicate a rapid growth in use of electricity by the new customers. In March, 1935, average residential use was 42 kilowatt hours, but by August it had more than doubled to 93 kilowatt hours.

Local electrical dealers report that the rural customers have outstripped many urban areas in purchase of electric appliances. As of August 1st, 48 per cent owned electric refrigerators, 19 per cent had electric ranges, and 6 per cent had electric water heaters. Several small home industries have also been established since the construction of the TVA lines.

Success of the Lauderdale and Colbert county lines has lead to the construction of ad-

ditional rural systems. A 110-mile farm network is now nearing completion in Lincoln county, Tennessee, and work was begun in August on a 129-mile network in Giles county.

California

Rate Cut Ordered

A REDUCTION of 10 per cent in electric rates resulting in a saving to consumers of $137,000 yearly in the Imperial and Coachella valleys, which area is served by the Southern Sierras Power Company, was ordered recently by the railroad commission.

The reduction, effective October 1st, included general lighting service, general power service, combination lighting, heating and cooking, outdoor sign and advertising lighting, ornamental and street lighting.

RFC Loan Vote Urged

CALLING of a special election to authorize the refinancing of a $22,800,000 RFC loan used for construction of the power transmission line from Hoover dam was favored by more than sixty civic leaders of Los Angeles at a meeting called by the chamber of commerce, board of water and power commissioners, and city council's water and power committee.

Savings of approximately $1,600,000 will result from lower interest rates and the lessening of annual amortization requirements, it was declared.

E. F. Scattergood, chief electrical engineer and general manager of the power bureau, stated that the decrease in charges would be reflected in rates of the municipal electric system.

Court Voids Lights Levy

PRACTICE of the city in levying assessments against private property for the street lighting and maintenance purposes was declared illegal by the district court of appeals of the third appellate district in a recent decision.

Counsel for Charles H. Roberts, Sunset boulevard property owner, who brought the action, and for the city declared that the decision is of far-reaching importance, with the municipality's attorneys asserting that an adverse decision will "seriously affect the financial status of the city."

Colorado

City Plant Shows Profit

A PROFIT of $2,932 during August was reported last month by the Fort Collins municipal light and water department.

The municipal distributing system, according to the official report of C. E. Perry, office manager, has shown a profit of $5,682 for the four months it has been operated.

The city purchases electric energy from the Public Service Company at wholesale prices and distributes it to consumers. An increase in profits was attributed to repairs recently made in the distributing system.

City Plant Cuts Rate

THE city council of Loveland last month approved an adjustment in electric rates which will bring an annual saving of approximately $16,000 for consumers. The city owns the electric plant, which was erected twelve years ago.

Connecticut

Weekly Pass Urged

ALDERMAN John F. Mackey submitted to the Hartford common council a resolution requesting the railways committee to confer with N. J. Scott, manager of the local lines of the Connecticut company, concerning the advisability of inaugurating in Hartford a plan similar to that in effect in some other cities, calling for a flat weekly fare system in line with transportation rate cards elsewhere. The railways committee was instructed to confer with officials of the company as soon as possible.

Illinois

Group to Fight Public Ownership

ORGANIZED opposition to any attempt to place the nation's transportation system under government ownership will be undertaken by the newly formed Transportation Association of America, Donald D. Conn, executive vice president, stated. The organization now includes a number of national figures in the industrial, agricultural, and business world. Thomas B. Huff, president of the American Serum Company, heads the organization.

Directors of the association, which recently set up its headquarters in the Transportation building in Chicago, held its first meeting in Chicago at the Union League Club on September 25th.

Members of the board come from many states and represent a cross section of agriculture, manufacturing, finance, and transportation, it is said.

Indiana

Natural Gas for Indianapolis

COLUMBIA Gas and Electric Company interests, represented in Indiana by Joseph E. Daniels and Paul G. Miller, district manager of the Indiana Gas Transmission Corporation, arranged a conference with the Indianapolis Utilities District directors, looking toward the submission of a proposal to supply natural gas.

The Indiana Gas Transmission Corporation, which is wholly owned by Columbia, transmitted a letter to former Mayor Reginald H. Sullivan, in which it recounted the fact that it had a transmission line running through the county connecting the Panhandle gas field with the fields in Ohio, West Virginia, Kentucky, and Pennsylvania.

The Columbia interests have also recently closed a contract to supply Detroit with natural gas from the pipe line which its subsidiary, the Panhandle Eastern, owns and which runs from Amarillo, Tex., to a point near Dana, Ind.

Kentucky

City Profits Questioned

WHETHER the Louisville Water Company, as a municipally owned plant, has the right to determine a "fair profit" the same as a private corporation was submitted for determination to the Kentucky Public Service Commission, following arguments on the question between attorneys for the city and attorneys for civic associations.

City attorneys argued that even as a municipally owned plant, the company was entitled to a fair return on its investment and cited court decisions to support contentions that the city, as owner of the plant, operated in a proprietary capacity and not in a governmental capacity. Opposing counsel requested an inquiry into the water rate structure upon which the city plant was operated and criticized the large amounts of free water supplied by the company to city institutions.

The city of Louisville has operated the water company for approximately seventy-five years on a profit-yielding basis and now turns over approximately $300,000 a year to the city sinking fund, which is used to retire city bonds.

Commission to Lose Chairman

WILBUR K. Miller, chairman of the Kentucky Public Service Commission, created by the 1934 General Assembly, was reported contemplating resignation in September, and was expected to be succeeded by Francis M. Burke, recently a candidate for the Democratic nomination for attorney general, according to *The Courier Journal*. Mr. Miller on several occasions had expressed a desire to return to his law practice at Owensboro, where he is a member of the law firm of Cary, Miller & Kirk. Mr. Burke was assistant attorney general until four months ago when he resigned to enter the race for Democratic nomination for attorney general.

Rate Cut Agreement

THE Kentucky Public Service Commission announced last month that the Kentucky-Tennessee Light & Power Company had agreed to electric rate reductions amounting to approximately $37,500 annually in Bowling Green.

The power company also agreed to a revised schedule of electric rates for Scottsville, Ky., consumers, amounting to a decrease of approximately $2,000 a year.

Maine

Utility Merger Approved

THE Central Maine Power Company was granted permission by the public utilities commission to consolidate with three of its subsidiaries—the Androscoggin Electric Corporation, the Dennistown Power Company, and the Waterford Light & Power Company. Central Maine is sole owner of the common stocks of these companies and will take over their property and operate them as an integral part of its own system.

Michigan

Natural Gas Truce in Detroit

THE Detroit, Mich., city council has definitely withdrawn from the October 8th ballot the proposed charter amendment which would authorize financing of a municipal gas plant. The council has also agreed to withdraw the municipal ownership proposal from the November 5th ballot, provided the Detroit Gas Co., in the interim, works out a satisfactory plan for fixing gas rates incident to the introduction of a natural gas supply, for which the company has already arranged.

Of considerable interest was the decision between the parties to devise a so-called "Detroit plan," which appears to be a combination of the well-known Washington plan and the Hartford Electric Co. idea. Under the proposed plan, rates would be fixed on the basis of the value of "used aud useful" property, with provisions that excess earnings over a year's period would be returned to gas consumers in the form of annual dividends, prorated according to the amount of gas consumed.

Meanwhile, in Washington, PWA Administrator Ickes has definitely announced that the long-discussed natural gas pipe line from the Texas Panhandle to the city of Detroit is a dead issue.

Incidentally, it appeared that a suitable market may yet be found for Michigan's own natural gas (regarded by Detroit officials as inadequate to supply the motor city) by piping it to Lansing, the state capital. The Consumers Power Co. has asked the state commission for authority to build a pipe line from the Central Michigan gas fields to Lansing and other communities in the central part of the state.

Missouri

St. Louis Gas Quiz

THE inquiry instituted several months ago by the state public service commission into the availability of an adequate supply of natural gas for St. Louis and St. Louis county was resumed before that body late in September, after being recessed a number of weeks. This was to be the last taking of testimony in the matter.

Much of the time of the inquiry was spent in cross-examination of Assistant Engineer Michael Drazen of the commission, who made a series of studies of the gas problem of St. Louis. He was examined at length by George C. Willson of counsel for the Laclede Company on details of his studies.

Estimates as to the cost of conversion by the Laclede from the present mixed gas to straight natural gas of 1,000 B.T.U. showed a wide difference. This expense of adjusting appliances was placed in a previous hearing by commission engineers at approximately $500,000.

New Jersey

Light Plant Vote Voided

THE supreme court, on September 21st, set aside proceedings under which the city of Camden voted a referendum to construct its own electric light plant. The court said it appeared from the proofs submitted that the petition requesting the referendum was

not signed by the requisite number of voters.

The suit to set aside was brought by the Public Service Electric & Gas Co., which said Camden proposed to construct its plant with a $6,000,000 Federal loan. Public Service attacked the right of the PWA to loan money to build municipally owned plants, but the court did not rule on that question.

Subsequent to the decision, the city commission acted to place before the city's voters for a second time the question of a municipally owned power plant.

A resolution was drafted which authorizes the placing of the question on the ballots at the November 5th election. An effort was to be made to obtain the proper number of signatures in order to qualify the referendum for the November 5th balloting.

New York

Town Pays Water Bill

FIVE thousand residents of the unincorporated village of Nedrow got water out of their faucets again after the village agreed to pay $2,050 "water rent" which was due the city of Syracuse more than a year.

The city shut off the water for twenty-four hours because the village had not paid the water rent.

North Dakota

Coal Freight Rates Cut

EMERGENCY reductions in rates on shipments of lignite coal in a restricted area in the state of North Dakota to meet truck competition were granted to three North Dakota railroads last month by the state board of railroad commissioners, it is reported.

The reductions are effective to many points in central and northwestern North Dakota. The Great Northern Railway, Northern Pacific, and Soo Line railroads asked the reductions, claiming truck competition had cut heavily into their traffic.

Ohio

Rural Power Probe Dropped

THE state utilities commission refused, last month, to make an immediate investigation of rural electric rates in Ohio.

Chairman E. J. Hopple said limited personnel and inadequate funds prevented the investigation of rates, which was sought by Henry Ballard, attorney for the Ohio Farm Bureau.

Oklahoma

Franchise Approved by Voters

THE Ponca City Gas Distributing Co. was a 10-to-1 victor for a new franchise in a special election at Ponca City September 19th, there being 2,064 votes cast for the franchise and 202 votes against. The franchise held by the company expired about two years ago and until a few months ago the company could not get the matter submitted to the voters. A supply of gas is had from pools in Osage and Garfield counties.

Pennsylvania

Rural Power Parley

THE Pennsylvania Joint Committee on Rural Electrification, consisting of representatives of leading farm organizations and of the electric light and power companies, met last month at the public service commission offices for the purpose of discussing

future plans for rural electric line extensions.

It was brought out that during the present year about 1,000 miles of line in rural sections are being constructed as a result of the plan sponsored by this group in 1926 and embodied in rules filed by the companies a year later. Under this plan the extension of lines has been gradual, but in recent years the mileage showed decreases in construction.

The Federal electrification plan is expected to accelerate the building of lines and the extension of electric service on Pennsylvania farms.

Since April 1, 1927, the effective date of a public service commission order relative to rural lines, 8,924 miles of rural lines have been constructed, reaching 104,235 consumers.

Public Ownership Group Meets Commission

THE public service commission heard representatives of the Pennsylvania Public Ownership League who came to Harrisburg, September 24th, to obtain information regarding the status of the inventory and appraisal of the Pennsylvania Power and Light Company and the commission's attitude on public ownership.

The league desired a revaluation of all light and water utilities in Pennsylvania, holding that the valuations, upon which rates are fixed, are too high. The commission explained that it had applied to the WPA for $280,000 to aid in the inventory of the Pennsylvania Power and Light Company properties.

Meanwhile the commission is going ahead with its own inventory with what available funds it has. The commission informed the league members it would welcome their help in securing larger sums from the legislature and the Federal government.

Members of the league said that they intended to try to get permission from the public school authorities to conduct a campaign of education for public ownership among the school children.

Tennessee

TVA to Expand

PLANS for construction of a 250-mile transmission "loop" linking eight west Tennessee municipalities with TVA power at Muscle Shoals were announced by the Tennessee Valley Authority.

The 250-mile line will tie in eight cities that already own their own distribution systems. The TVA will spend more than $1,000,000 building the line.

"A full development of our present plans," said David E. Lilienthal, director, "will result in one of the major rural electrification projects in the entire country."

The system will link Bolivar, Covington, Dyersburg, Jackson, Milan, Somerville, Trenton, and Union City. Jackson will receive TVA power for municipal purposes only, it is said.

Lilienthal said surveys have been made on more than 1,500 miles of rural lines that may tie in with the 250-mile central "loop."

Engineers reported to the Tennessee Valley Authority board that savings to the more than 5,500 prospective customers will amount to $155,000 a year, or 46 per cent of their annual electricity bill.

Dual Transit Attacked

BELIEF that operation of two transportation systems in Knoxville would cause ruin to "one and maybe both" was expressed last month by Robert W. Lamar, vice president and general manager of the Tennessee Public Service Company.

He testified as the Tennessee Public Service Company's first witness before the Tennessee Railroad and Public Utilities Commission in opposition to the Knoxville Motor Coach Company's application for a certificate to operate busses over twelve routes in Knoxville, some of which would parallel the present street car system in places.

West Virginia

Complaints on Utility Votes

UNITED States Senator Rush D. Holt said that Representatives in Congress who voted against the President's utility holding company bill "have heard plenty of complaints from the folks at home" since the session ended.

"The congressmen may not admit it," Holt said, "but the people are protesting. I know because the people are writing to them and sending me copies of their letters."

The Latest Utility Rulings

Investment in Unprofitable Foreign Public Utility Not Allowed

AUTHORITY asked by a Pennsylvania public utility corporation to acquire from its parent company additional holdings in a public utility operating in Virginia was denied by the Pennsylvania commission upon a showing that the foreign company was operating regularly at a loss and that there was no connection between the public utility operations of the two companies.

The commission announced its policy to approve securities of a company only for purposes related to the rendition of its public service, stating:

> Thus, the commission permits the capitalization of expenditures for improvements to plant. It allows the sale of securities to raise necessary working capital. It permits the issuance of one company's securities for the purpose of buying those of another, provided the company whose securities are acquired is a utility from whom the issuer buys its product, or to whom it sells its product for redistribution, or is a company whose continued operation is otherwise desirable from the standpoint of the issuer. The commission requires it be established to its satisfaction that a proposed security transaction may reasonably be considered a matter arising from the issuing company's doing the business for which it was created, namely, the rendition of public service to its consumers.

The commission believed a situation to be bad enough when a utility capitalizes investments in corporations not related in some way to the transaction of its own business, but said it was worse when the investment is made in a property known to be carrying on its operations at a loss. *Re Pennsylvania Gas & Electric Co.* (*Securities Docket No. 115*).

Organization Expense Disallowed for Unit of Affiliated System

THE Montana commission declared that it would be warranted in making no allowance for organization expense, in calculating reproduction cost, where it was valuing for ratemaking purposes a water plant which was part of an affiliated system.

The commission said that, since the company was already a going corporation operating many other utilities, there would be no occasion on reproducing the hypothetical water plant to reorganize the corporation. Moreover it was said that because the plant was part of an affiliated system this would have a tendency to reduce such items of expense to a minimum.

Commissioner Young, dissenting from the rate decision, conceded that in this case the elimination of organization expense as well as going value could perhaps be justified under the facts. He criticized the commission, however, for disallowing a payment to the utility system for general services, on the ground that the payments were shown to be in exchange for necessary services and were reasonable in amount. He said:

> Furthermore, I believe the commission should be consistent. The majority eliminates from the calculation of reproduction cost consideration of organization expense because the Missoula water system is a part of the Montana Power Company system and because upon a hypothetical reproduction its affiliation with this "going corporation operating many other utilities," would have a tendency to reduce such items of expense to a minimum. If the commission is willing to recognize the value of

the general offices and set-up of the Montana Power Company for the purpose of reducing a reproduction cost estimate it should be consistent and give recognition to the value of the general offices and system when considering operating expenses.

Re Montana Power Co. (*Docket No. 1846, Report & Order No. 1664*).

Commission Rules on Rate Proposals of New York Electric Company

THE New York commission, which for some time has been attempting to secure rate reductions for electric service in New York city, passed upon several proposals for new rate schedules without taking formal action as no rate schedules had actually been filed. Some of the proposals were considered steps in the right direction while others were disapproved.

The commission did not undertake to say what should be done regarding submetering and the resale of electric energy, but it held that any rule or regulation which prohibits a landlord from furnishing electric service to a tenant without specific charge therefor, and all that goes with such a rule, is an undue intrusion into his affairs, is unjust and unreasonable, and not founded on any real need. Chairman Maltbie said:

> Landlords generally furnish elevator service, janitor service, heating, hot and cold water and in some instances refrigeration service, intercommunicating telephone service, and gas service. It would be as sensible to require all landlords and hotel proprietors to meter the amount of hot and cold water used by each tenant, to have a steam meter on each apartment, to pay for each time they use the halls and elevators as to approve the rule that a landlord may not, as in all of these other cases, furnish electric current without any specific charge.

The commission discussed demand charges for commercial customers and concluded that a monthly demand charge as high as $2.50 per kilowatt is inadvisable even if theoretically justified. It was said that customers understand with difficulty the reasons for even a moderate demand charge. They believe that they are paying for something for which they get nothing.

Substitution of a B.T.U. basis instead of a tonnage basis for a fuel adjustment clause was approved. It was said that this would not be difficult to administer and would operate satisfactorily in case the company should find it economical to use different grades of coal or other kinds of fuel. No fuel clause, however, in the opinion of the commission, should be made applicable to residential rates.

The commission was not convinced that the same maximum demand rate or the same rate for electric energy should be charged of private plant operators as of the general public who take all of the service from public utilities. Chairman Maltbie said:

> In fixing rates for this service, it should be borne in mind that the private plant operators are in reality competitors of central station service and they supply electric energy to those who would use central station service if the private plant did not exist. Consequently, it is not to be expected that public utilities would render service at the same close adherence to cost that would be expected of public utilities when supplying service to the ultimate consumer.

Re New York Edison Co. (*Case No. 8541*).

Request for Extension of Refund Period in Real Estate Tract Denied

THE California commission announced that it was not prepared to launch upon the policy of extending the terms of contracts relating to re-

funds on service extensions, assuming that it had jurisdiction to do so. Commissioner Carr, delivering the opinion for the commission, said:

> Nearly all utilities in this state have extension rules similar to those here involved and during the period of feverish real estate extension prior to the depression made many extensions. If the period for making refunds were extended here it would lead almost inevitably to similar holdings as to such extension contracts of all the utilities of the state, as no special circumstances were shown here to place these contracts in a class by themselves.

The commission denied reparation to an assignee for alleged overcharges under such contracts on the ground that no assignment of a reparation claim could be recognized except assignments by operation of law as in cases of death, insanity, bankruptcy, receivership, or order of court. Moreover, the complaints for reparation were made more than three years after the extension. *Exchange Securities Corp. v. San Diego Consolidated Gas & Electric Co. (Decision No. 28150, Case No. 3916).*

Interstate Pipe-line Company Not Subject to Jurisdiction of State Commission

THE supreme court of Missouri reversed a decision by the state commission requiring the Cities Service Gas Company to file schedules of rates. The commission had held that the pipe-line company was a public utility engaged in the sale and distribution of industrial gas in Missouri.

The court approved the view that the pipe-line company, although affiliated with distributing companies, sold its gas to such companies for resale. It rejected the contention that the distributing companies were acting merely as agents for the pipe-line company. The fact that a pipe-line company fixes the price at which industrial gas is sold by distributing companies, said the court, does not of itself create the relation of agency.

The commission contended that while the gas delivered to distributing companies for resale in cities did not become intrastate commerce until it reached the lines of the distributing companies, however, in the serving of industries by the pipe-line company, the interstate movement ceased at the point the gas left the main pipe line and entered the lateral line that served the industries.

To this the court replied that in both instances there was a previous contract with the pipe-line company for the sale of the gas before it left the foreign state and it was delivered direct to the purchaser in Missouri without any storing or holding to be served on demand. The court could see no distinction between these two instances and held both to be interstate commerce.

The fact that the pipe-line company had availed itself of the power of eminent domain under the state Constitution was held not to make it a public utility engaged in intrastate business, since the test is not what powers the pipe-line company has under its charter, but what it was actually doing.

The court said that the pipe-line company was a foreign corporation licensed to do business in Missouri, had secured a permit from the commission to lay pipe lines in the state, and under the Missouri statutes it had the power to condemn land to lay pipe lines for public use; because it condemned land and applied to the commission for a certificate to lay the pipe lines, it was held, did not estop it from denying that it was engaged in intrastate commerce. *Missouri ex rel. Cities Service Gas Co. v. Public Service Commission (Mo. Sup. Ct.).*